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Survey of the Average Cost of Filling a Medicaid Prescription in the State of Louisiana

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I. Executive Summary

Introduction

Act 801 of the 2006 Regular Session of the Louisiana Legislature (see Louisiana Revised Statutes 46:153.3(B)(1)) directs the Department of Health and Hospitals to submit a state plan amendment to the Centers for Medicare and Medicaid Services (CMS) for an increase in the dispensing fee of the Medicaid pharmacy program beginning on January 1, 2007. Act 801 states that the enactment of the Deficit Reduction Act (DRA) of 2005 will result in significantly reduced reimbursement rates for the ingredient cost of generic prescription drugs in the Medicaid program. Although this provision of the DRA was to become effective on January 1, 2007, additional guidance to states from CMS indicates that implementation of the DRA provisions relative to the Federal Upper Limits (FUL) will become effective in early spring of 2007.

The Department submitted a state plan amendment to CMS on July 26, 2006. In order to provide documentation to CMS for an increase in the dispensing fee, the Department contracted with Myers and Stauffer to conduct a survey to determine the average cost of dispensing a Medicaid prescription in the state of Louisiana.

There were 1,098 pharmacy providers enrolled in the Medicaid program with paid claims between January 1, 2006 and June 30, 2006 (not including 6,635 out of state providers which were enrolled as a result of Hurricane Katrina). Of these providers, there were 1,058 pharmacies that were located in the state of Louisiana. Of these, 1,001 pharmacies had Medicaid volume of at least 250 prescriptions or payments of at least \$15,000. Myers and Stauffer randomly selected 550 pharmacies to receive a survey instrument from the population of 1,001 pharmacies. These 550 pharmacies were requested to submit survey information for this study.

Myers and Stauffer performed desk review procedures to test completeness and accuracy for all dispensing cost surveys submitted. There were 390 pharmacies that filed cost surveys that could be included in this analysis.¹ Data from these surveys was used to calculate the average cost of dispensing at each pharmacy and results from these pharmacies were tabulated and subjected to statistical analysis.

¹ Some pharmacies submitted surveys that were incomplete or contained data errors that precluded their use in this study. As time permitted, pharmacies that submitted incomplete or erroneous survey information were contacted for clarification. However, not all pharmacies responded to these requests for additional information, and those surveys were not included in the final analysis.

The survey instrument included a section that was drafted by representatives of the Louisiana Independent Pharmacies Association and the National Association of Chain Drug Stores. Myers and Stauffer reviewed the supplemental data and utilized some of the data elements collected to refine the cost finding methodology of the survey.²

Myers and Stauffer also compared the pharmacy dispensing fee of the Louisiana Medicaid program to the dispensing fees of other state Medicaid programs. Additionally, Myers and Stauffer has provided some general comments relating to the reimbursement rates paid by private drug plans.

Summary of Findings

The significant findings of the study are as follows:

Dispensing Cost

- **Per the survey of pharmacy dispensing cost for pharmacies participating in the Louisiana Medicaid program, the statewide average (mean) cost of dispensing, weighted by Medicaid volume, was \$8.32 per prescription.** This figure excludes 12 specialty pharmacies which exhibited a significantly different cost structure.

Table 1.1 Dispensing Cost ^A for Louisiana Pharmacies

Pharmacies Included in Analysis ^B	378
Unweighted Average (Mean)	\$9.40
Weighted Average (Mean) ^C	\$8.32
Unweighted Median	\$8.43
Weighted Median ^C	\$7.81

^A Inflated to common point of June 30, 2006 (midpoint of a fiscal year ending December 31, 2006).

^B Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

^C Weighted by Medicaid volume.

For the dispensing cost survey, Myers and Stauffer requested pharmacies to report cost data based on their most recently completed fiscal year. Due to the timing of the survey, most pharmacies reported using a fiscal year ending December 31, 2005. One implication of the use of this reporting period is that the fiscal reporting cycle for most pharmacies included only four months of cost data after the Hurricane Katrina disaster of August 2005. Although the cost data was

² Data from the supplemental section of the survey form impacted the calculation of an "area ratio" used to allocate certain expenses and enhanced the determination of a minimum allowance for the cost of prescription containers and labels. See Chapter 3 for additional details.

inflated to the common point of June 30, 2006 (midpoint of a fiscal year ending December 31, 2006) using a national inflation index, there are concerns that in-state inflation and wage increases have outpaced national averages, particularly in areas most impacted by the hurricane. To the extent that local inflation exceeds the national index utilized, the calculated dispensing cost may understate actual dispensing cost currently incurred.

Myers and Stauffer notes that the pharmacy industry in Louisiana has sponsored or participated in other studies of pharmacy dispensing cost. One study, sponsored by the Coalition for Community Pharmacy Action, was published in January 2007. Among other measurements, the study reports a mean "overall cost of dispensing per prescription" of \$9.19 based on analysis of data from 274 pharmacies in the state of Louisiana.³ This study was based on a standard fiscal reporting period of March 1, 2006 to August 31, 2006.

Comparison of Pharmacy Reimbursement Rates

State Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in these programs range from under \$2 to over \$11. At \$5.77, the maximum dispensing fee for Louisiana Medicaid falls at approximately the 96th percentile of all state Medicaid dispensing fees. Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17% to a high of AWP minus 5%. At AWP minus 15% for chain⁴ pharmacies and AWP minus 13.5% for non-chain pharmacies, the ingredient reimbursement for brand name drug products under Louisiana Medicaid falls at approximately the 34th percentile of all state Medicaid ingredient reimbursement rates for brand name drug products.

Private third party payers generally reimburse for dispensing fees and drug ingredients at rates less than those paid by Louisiana Medicaid. On average, dispensing fees paid by private third party payers are less than the dispensing cost of most pharmacies, with one national study reporting average dispensing fees of less than \$2 in 2005.⁵

³ See *National Study to Determine the Cost of Dispensing Prescriptions in Community Retail Pharmacies*, prepared by Grant Thornton LLP for the Coalition for Community Pharmacy Action, January 2007. Other notable measurements from the study specific to Louisiana pharmacies include the following means: "overall cost of dispensing per pharmacy" of \$10.50; "Medicaid cost of dispensing per prescription" of \$9.29; and "Medicaid cost of dispensing per pharmacy" of \$10.75.

⁴ The Department of Health and Hospitals defines a chain as having more than 15 pharmacies under common ownership and enrolled in Louisiana Medicaid.

⁵ See *The Prescription Drug Benefit Cost and Plan Design Survey Report*, 2006 Edition, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc.

Conclusions

There are several factors that should be considered in determining an appropriate Medicaid pharmacy reimbursement formula besides dispensing costs incurred by pharmacies. These factors include drug acquisition costs and market dynamics (e.g., the rates accepted from commercial third-party payers) balanced with the need to maintain sufficient access to services for Medicaid recipients throughout the state.

An overall evaluation of the adequacy of current pharmacy reimbursement rates should consider findings related to dispensing cost in tandem with an analysis of ingredient reimbursement rates and the cost pharmacies incur to acquire prescription medications. The Department's current maximum pharmacy dispensing fee is lower than the average cost of dispensing prescriptions. However, on the average, Myers and Stauffer estimates that pharmacies realize positive net margins on Medicaid prescriptions due to margins on drug ingredient cost. Based on Myers and Stauffer's experience with drug acquisition cost and Louisiana's current reimbursement for drug ingredients, single-source drugs and multi-source drugs without an FUL price or Louisiana Maximum Allowable Cost (LMAC) price may have average margins on drug ingredient cost approximately in the range of \$8 to \$12 per prescription. These margins potentially offset all or part of the difference between the Medicaid dispensing fee and the average dispensing cost. Margins on drug ingredient cost for drugs with an FUL or LMAC price are estimated to be lower but remain a significant factor in the margins realized on Medicaid prescriptions.

It is anticipated that margins on drug ingredient cost will be impacted by forthcoming changes in FUL prices. These changes, as required by the Deficit DRA, will reflect a calculation of FUL prices based on the "average manufacturer price" (AMP).⁶ Based on analysis of Louisiana Medicaid utilization for calendar year 2005, approximately 35.4% of prescriptions reimbursed are for products that have an FUL price. These products account for approximately 11.2% of Medicaid payments to pharmacies.⁷

Based on the results of the study of pharmacy dispensing cost, a dispensing fee of \$8.32 would reimburse the mean cost of dispensing prescriptions to Medicaid recipients. Alternately, a dispensing fee of \$7.81 would reimburse the weighted median cost of dispensing. Consideration of dispensing fees less than the average dispensing cost may also be reasonable due to margins realized on current levels of ingredient reimbursement.

⁶ See Public Law 109-171, Section 6001(a)(2).

⁷ See Chapter 2 and Table 2.1 for additional information regarding Louisiana Medicaid utilization.

Several alternatives for changes to dispensing fee reimbursement could be considered by the Department. Instructions to the Department at Louisiana Revised Statutes 46:153.3(B)(1) appear to primarily address concerns related to changes in FUL prices as a result of the DRA. Although actual price revisions have not yet been made available, it is widely anticipated that FUL prices will be reduced based on provisions of the DRA. In Table 1.2, below, Myers and Stauffer has presented several scenarios for potential modification to the current dispensing fee based on the potential impact of changes to FUL prices. The scenarios presented in Table 1.2 are not based on the measurement of pharmacy dispensing cost, but rather are scenarios to achieve budget neutrality given a specified impact of FUL price changes.

Table 1.2 Dispensing Fee Modifications Necessary to Maintain Budget Neutrality Based on Potential Changes in FUL Prices^A

Percent Decrease in FUL Pricing ^B	Dispensing Fee Necessary to Maintain Budget Neutrality if Modified Fee Applied to:		
	FUL Products Only (i.e., all other products remain at dispensing fee of \$5.77)	All Multi-Source Products Only (i.e., single-source products remain at dispensing fee of \$5.77)	All Products
0%	\$5.77	\$5.77	\$5.77
5%	\$6.53	\$6.26	\$6.04
10%	\$7.29	\$6.75	\$6.31
15%	\$8.04	\$7.24	\$6.57
20%	\$8.80	\$7.73	\$6.84
25%	\$9.56	\$8.22	\$7.11
30%	\$10.32	\$8.71	\$7.38
35%	\$11.07	\$9.20	\$7.65
40%	\$11.83	\$9.68	\$7.91
45%	\$12.59	\$10.17	\$8.18
50%	\$13.35	\$10.66	\$8.45

^A Model is based on utilization data from 2005 and 2006 obtained from the Louisiana Department of Health and Hospitals and CMS. See Chapter 2 for further descriptions of utilization data sources.

^B For purposes of this model, percent decrease in FUL reimbursement is based on drug products that currently have an FUL. CMS has issued a proposed rule regarding the definitions for AMP prices and the calculation of FUL rates. The proposed rule is still in the comment phase. In addition to changing rates for current drugs with an FUL, the proposed rule could result in more products having an FUL.

Louisiana Revised Statutes 46:153.3(B)(1) includes language that suggests that a dispensing fee of at least \$15 for drugs with an FUL price and a dispensing fee of at least \$10 for all other prescriptions would assure adequate access by Medicaid beneficiaries to prescription drugs and pharmacy services. In Table 1.3, the estimated fiscal impact of dispensing fees at those levels is presented. Since

the actual impact of the new FUL prices remains unknown, the table presents multiple scenarios assuming various levels of change in FUL prices. The fiscal impact is the net of savings from FUL price reductions and additional cost from higher dispensing fees.

Table 1.3 Estimated Fiscal Impact of Dispensing Fees of \$15 for Drugs with an FUL Price and \$10 for all other Drugs (all dollar amounts in millions)^A

Percent Decrease in FUL Pricing^B	Estimated Savings from Reduced FUL Prices	Estimated Increase in Cost Due to Increased Dispensing Fees	Net Fiscal Impact
0%	\$0.0	\$57.3	+\$57.3
5%	\$2.6	\$57.3	+\$54.7
10%	\$5.1	\$57.3	+\$52.2
15%	\$7.7	\$57.3	+\$49.6
20%	\$10.2	\$57.3	+\$47.1
25%	\$12.8	\$57.3	+\$44.5
30%	\$15.4	\$57.3	+\$41.9
35%	\$17.9	\$57.3	+\$39.4
40%	\$20.5	\$57.3	+\$36.8
45%	\$23.0	\$57.3	+\$34.3
50%	\$25.6	\$57.3	+\$31.7

^A Model is based on utilization data from 2005 and 2006 obtained from the Louisiana Department of Health and Hospitals and CMS. See Chapter 2 for further descriptions of utilization data sources.

^B For purposes of this model, percent decrease in FUL reimbursement is based on drug products that currently have an FUL. CMS has issued a proposed rule regarding the definitions for AMP prices and the calculation of FUL rates. The proposed rule is still in the comment phase. In addition to changing rates for current drugs with an FUL, the proposed rule could result in more products having an FUL.

In addition to any changes proposed to the dispensing fee, Myers and Stauffer recommends that the Department continue to monitor and review its ingredient cost allowance. Potential modifications to reimbursement policies should consider both dispensing and ingredient components of reimbursement.

II. Program Overview

Louisiana Medicaid Pharmacy Program Overview

The Louisiana Medicaid program includes a benefit for prescription drugs. The two primary components for Medicaid reimbursement of pharmaceuticals are the allowable drug ingredient reimbursement, plus a dispensing fee. The dispensing, or professional, fee is paid to pharmacies to cover their overhead and labor costs. Guidelines from the Centers for Medicare and Medicaid Services (CMS) on state Medicaid pharmacy dispensing fees include federal regulations at 42 CFR 447.331-333 that require states to establish a reasonable dispensing fee and to document their pharmacy reimbursement methodology in their state plan.⁸

In accordance with the Department of Health and Hospital's rule published in the Louisiana Register on April 20, 2002, the Louisiana Medicaid program reimburses pharmacy providers for most covered prescription drugs at the lowest of the following:

1. Estimated Acquisition Cost (EAC) of the drug, plus the maximum allowable overhead cost (commonly referred to as the dispensing fee).
2. Federal Upper Limit (FUL) on multiple source drugs established by the Centers for Medicare and Medicaid Services (CMS), plus the dispensing fee.
3. Louisiana Maximum Allowable Cost (LMAC) limits on multiple source drugs established by Louisiana Medicaid, plus the dispensing fee. LMACs are set at the median Average Wholesale Price (AWP) for a specific drug strength.
4. Amount billed by the pharmacy, which cannot exceed the pharmacy's usual and customary charge to the general public.

To calculate the EAC, the Department uses the lesser of the published Average Wholesale Price (AWP) minus 13.5% for independent pharmacies or 15% for chain pharmacies⁹ for drugs not subject to FUL or LMAC limits and drugs exempt from FUL or LMAC limits due to a physician override.

⁸ Additional guidelines regarding pharmacy dispensing fees were recently proposed by CMS. See *Federal Register*, December 22, 2006, p. 77176.

⁹ The Department of Health and Hospitals defines a chain as having more than 15 pharmacies under common ownership and enrolled in Louisiana Medicaid.

The Department uses a maximum pharmacy dispensing fee of \$5.77 per prescription.

Program Utilization

Myers and Stauffer received a pharmacy provider file from the Department. This file included all pharmacies receiving Medicaid reimbursement during the time period of January 1, 2006 to June 30, 2006.

Based on the information in the provider file, for the six month time period of data summarized, the Louisiana Medicaid pharmacy program reimbursed:

- Approximately 4.8 million prescriptions.
- Approximately \$317 million for prescription drug products.

Based on the data in the provider file, approximately 1,098 pharmacy providers participate in the Louisiana Medicaid drug program. Of these, 1,058 pharmacies are located in the state of Louisiana.

Approximately 47.5% of the in-state pharmacies in the provider file were chain-affiliated ¹⁰, and 52.5% were independently-owned stores. Chain-affiliated pharmacies were responsible for approximately 48% of the Medicaid prescription volume (in-state pharmacies only).

The average Medicaid volume for in-state pharmacies was approximately 4,500 prescriptions (for a six month time period). The median Medicaid volume for in-state pharmacies was approximately 3,300 prescriptions (for a six month time period).

Myers and Stauffer obtained a drug utilization summary file for Louisiana Medicaid from the CMS web site.¹¹ This file summarized pharmacy claims processed for calendar year 2005.¹² Information from this file indicates that the Louisiana Medicaid pharmacy program reimbursed:

- Approximately 14,589 drug products (by national drug code [NDC]).
- Approximately 14.9 million prescriptions.
- Approximately \$989.9 million for prescription drug products.

Although approximately 40.7% of the 14,589 drug products and 35.4% of the 14.94 million prescriptions were products with an FUL price, these products

¹⁰ Approximately 43.3% of in-state pharmacies meet the definition of a chain as defined by the Department of Health and Hospitals and have more than 15 pharmacies under common ownership that are enrolled in Louisiana Medicaid

¹¹ See <http://www.cms.hhs.gov/MedicaidDrugRebateProgram/SDUD/list.asp>

¹² Substantial differences in the prescription volume of the Louisiana Pharmacy program between the CMS file for calendar year 2005 and the provider file for 1/1/2006 to 6/30/2006 can be partially attributed to the introduction of the Medicare Part D prescription benefit on January 1, 2006 and the subsequent removal of Medicaid prescription volume for dual-eligible beneficiaries.

account for only 11.2% (\$110.6 million) of the expenditures. The majority of the program's expenditures, 88.8% (\$879.4 million), were for drugs without an FUL price. This includes single source (i.e., "brand name") drug products as well as multi-source products without an FUL that may have an LMAC price set by the Department.

FUL prices are set by CMS. Through December 2006, FUL prices were based on 150% of the lowest wholesale price listed in any of the various published compendia of cost information of drugs.

Recent changes enacted by the Deficit Reduction Act of 2005 (DRA) will modify the methodology for calculating FUL prices. Per the DRA, beginning January 1, 2007, FUL prices are required to be based on 250% of the "average manufacturer price" (AMP).¹³ The AMP was previously defined by Section 1927 of the Social Security Act as part of the Medicaid drug rebate program. Significant concern has existed among stakeholders in the pharmacy industry regarding the precise manner in which CMS will calculate FUL prices under the new statutory guidelines.¹⁴ To date, revised FUL prices have not been made publicly available. Proposed regulations from CMS relating to the calculation of FUL prices based on the AMP were published in the *Federal Register* on December 22, 2006.

Table 2.1 Summary of Drug Program Utilization

Product Type	Number of Drug Products	Percent of Total Number of Drug Products	Number of Prescriptions	Percent of Total Number of Prescriptions	Amount Reimbursed	Percent of Program Expenditures
Products without an FUL Price	8,654	59.3%	9.66 Million	64.6%	\$879.4 Million	88.8%
Products with an FUL Price	5,935	40.7%	5.28 Million	35.4%	\$110.6 Million	11.2%
Total: All Products	14,589	100%	14.94 Million	100%	\$989.9 Million	100%

Note: Existence of a FUL price for a product is based upon January 2006 prices. Utilization figures were obtained from the Centers for Medicare and Medicaid Services and are for calendar year 2005.

¹³ See Public Law 109-171, Section 6001(a)(2). Implementation of the AMP-based FUL prices did not begin on January 1, 2007 as required. CMS currently estimates implementation of AMP-based FUL prices in the spring of 2007.

¹⁴ See, for example, Office of the Inspector General report A-06-06-00063, "Determining Average Manufacturer Prices for Prescription Drugs Under the Deficit Reduction Act of 2005", May 2006 and Government Accountability Office report GAO-07-239R, "Estimated 2007 Federal Upper Limits for Reimbursement Compared with Retail Pharmacy Acquisition Costs", December 2006.

III. Dispensing Cost Survey

The Louisiana Department of Health and Hospitals (Department) is required by the Louisiana Revised Statutes 46:153.3(B)(1) to evaluate the dispensing fees paid to pharmacies under the Louisiana Medicaid program (Exhibit 1). The Department engaged Myers and Stauffer LC to perform a study to measure the average cost to fill a Medicaid prescription in the state of Louisiana. In order to determine costs incurred to dispense pharmaceuticals to Medicaid recipients in the state of Louisiana, Myers and Stauffer utilized a survey method consistent with the methodology of previous surveys conducted by Myers and Stauffer in several states.

Methodology of the Dispensing Cost Survey

Survey Distribution

Myers and Stauffer obtained from the Department a list of pharmacy providers currently enrolled in the Medicaid program. There were 1,098 pharmacy providers enrolled in the Medicaid program with paid claims between January 1, 2006 and June 30, 2006 (not including 6,635 out of state providers which were enrolled as a result of Hurricane Katrina). Of these providers, there were 1,001 pharmacies that were located in the state of Louisiana and had Medicaid volume of at least 250 prescriptions or payments of at least \$15,000. From these 1,001 pharmacies, Myers and Stauffer randomly selected 550 pharmacies to receive a survey instrument.¹⁵ Each sampled pharmacy received a copy of the cost survey (Exhibit 2)¹⁶, a list of instructions (Exhibit 3), a letter of introduction from the Department of Health and Hospitals (Exhibit 4) and a letter of explanation from Myers and Stauffer (Exhibit 5a and Exhibit 5b).

Concerted efforts to encourage participation were made to enhance the survey response rate. Myers and Stauffer sent additional letters reminding pharmacies of the survey on December 4, 2006 (Exhibit 6a and Exhibit 6b). On January 9, 2007, an additional letter was mailed extending the due date for the survey by approximately two weeks (Exhibit 7a and Exhibit 7b). An official letter explaining the purpose of the study was sent to the sampled pharmacy providers by the

¹⁵ A total of 97 pharmacies were excluded from the sampling process on the criteria of being located out-of-state or having Medicaid prescription volume less than 250 prescriptions and Medicaid payments of less than \$15,000 (Medicaid volume based on the time period January 1, 2006 and June 30, 2006). The pharmacies excluded from the sampling process based on these criteria accounted for approximately 0.4% of Medicaid prescriptions dispensed and 1.6% of Medicaid payments.

¹⁶ One section of the survey instrument, Section III "Additional Data", was developed by representatives of the Louisiana Independent Pharmacies Association and the National Association of Chain Drug Stores.

Department of Health and Hospitals (Exhibit 4). The survey forms, instructions and a letter of explanation from Myers and Stauffer offered pharmacy owners the option of having Myers and Stauffer complete certain sections of the survey if copies of financial statements and/or tax returns were submitted. A toll-free telephone number was listed on the survey form, and pharmacists were urged to call to resolve any questions they had concerning completion of the survey form.

Of the 550 surveyed pharmacies, 11 pharmacies were determined to be ineligible to participate (based on the returned surveys). Providers were deemed ineligible if they had closed their pharmacy, had a change of ownership, or had less than six months of cost data available (e.g., due to a pharmacy that recently opened, or changed ownership).

As indicated in Table 3.1, there were 390 pharmacies (out of 539 eligible pharmacies) that submitted a usable cost survey for this study, which is a response rate of 72.4%.

Some of the submitted cost surveys contained errors or did not include complete information necessary for full evaluation. For cost surveys with such errors or omissions, the pharmacy was contacted for clarification. There were some cases in which issues on the cost survey were not resolved in time for inclusion in the final analysis.¹⁷

Surveys were accepted through January 22, 2007. Surveys received after that date were not logged or reviewed.

The following table, 3.1, summarizes the dispensing cost survey response rate.

Table 3.1 Pharmacies Responding to Dispensing Cost Survey

Type of Pharmacy	Total Medicaid Enrolled Pharmacies	Total Pharmacies Eligible for Sampling	Sampled Pharmacies Receiving Cost Surveys	Pharmacies Exempt or Ineligible from Filing	Eligible Pharmacies	Usable Cost Surveys Received ¹⁸	Response Rate
Chain ¹⁹	467	444	241	0	241	155	64.3%
Non-Chain	631	557	309	11	298	235	78.9%
TOTAL	1,098	1,001	550	11	539	390	72.4%

¹⁷ There were 6 surveys received on or before January 22, 2007 that were eventually determined to be unusable because they were substantially incomplete or missing essential information. These issues could not be resolved in a timely manner with the submitting pharmacy.

¹⁸ There were 143 eligible pharmacies that did not respond to the survey request with a usable survey on or before January 22, 2007.

¹⁹ For purposes of this table, a "chain" pharmacy is one that has more than 15 pharmacies under common ownership and enrolled in Louisiana Medicaid. The "non-chain" category includes some pharmacies that meet a casual definition of a "chain pharmacy", but do not meet the criteria for a "chain" based on the definition used by the Department of Health and Hospitals.

Survey response rate by parish and region is included in Exhibit 8.

Tests for Reporting Bias

For the pharmacy traits of affiliation (i.e., chain or independent) and location (i.e., urban or rural), the sample of pharmacies was tested to determine if it was representative of the population of Medicaid provider pharmacies. Since the response rate of the sample pharmacies was less than 100 percent, the possibility of bias in the responding sample should be considered. To measure the likelihood of this possible bias, chi-square (χ^2) tests were performed. A χ^2 test evaluates differences between proportions for two or more groups in a data set.

Of the 390 usable cost surveys, 235 were from non-chain pharmacies and 155 were from chain pharmacies. The slight over representation of non-chain pharmacies (a response rate of 78.9% for non-chain pharmacies compared to a response rate of 64.3% for chain pharmacies) could be due to several reasons. The decision of a chain organization to file or not file typically meant filing for all or none of the chain's pharmacies participating in the Louisiana Medicaid program. This creates the potential for greater volatility in the response rate for chains since individual decisions to file or not file have a large impact on the overall response rate. Also, due to impending changes in pharmacy reimbursement at the national level, there are a significant number of pharmacy dispensing cost surveys being performed by state Medicaid programs and industry trade organizations. Chain pharmacies are impacted disproportionately by this survey activity due to their presence in multiple states. Myers and Stauffer took steps to ease the burden of survey response and offered chain pharmacy organizations the option of completing the survey forms via submission of a spreadsheet with data for all stores.

Regardless of the slight difference in response rates for independent and chain pharmacies, the results of the χ^2 test indicated that the differences observed were within sampling tolerances. A χ^2 test was also performed with respect to the urban versus rural location of the pharmacy. The results of this test indicated that minor differences in response rates for urban and rural pharmacies were also within sampling tolerances.

Receipt and Review Procedures

For confidentiality purposes, each pharmacy was randomly assigned a four-digit identification number and each cost survey was carefully examined. A desk review was performed for each survey received. This review identified incomplete cost surveys, and pharmacies submitting these cost surveys were contacted by telephone to obtain information necessary for completion.

Cost Finding Procedures

For all pharmacies, the basic formula used to determine the average dispensing cost per prescription was to calculate the total dispensing-related cost and divide it by the total number of prescriptions dispensed:

$$\text{Average Dispensing Cost} = \frac{\text{Total (Allowable) Dispensing Related Cost}}{\text{Total Number of Prescriptions Dispensed}}$$

Determining the result of this equation becomes more complex since not all costs are strictly related to the prescription dispensing function of the pharmacy. Most pharmacies are also engaged in lines of business other than the dispensing of prescription drugs. For example, many pharmacies have a retail business with sales of over-the-counter (OTC) drugs and other non-medical items. Some pharmacies are involved in the sale of durable medical equipment. The existence of these other lines of business necessitates that procedures be taken to isolate the costs involved in the prescription dispensing function of the pharmacy.

Cost finding is the process of recasting cost data using rules or formulas in order to accomplish an objective. In this study, the objective is to estimate the cost of dispensing prescriptions to Medicaid recipients. To accomplish this objective, some pharmacy costs must be allocated between the prescription dispensing function and other business activities. This process identified the reasonable and allowable costs necessary for prescription dispensing to Medicaid recipients.

Dispensing cost consists of two main components: overhead and labor. The cost finding rules employed to determine each of these components are described in the following sections.

Overhead Costs

Overhead cost per prescription was calculated by summing the allocated overhead of each pharmacy and dividing this sum by the number of prescriptions dispensed. We allocated overhead expenses that were reported for the entire pharmacy to the prescription department based on one of the following allocation methods:

- Sales ratio – prescription sales divided by total sales.
- Area ratio – prescription department floor space (in square feet) divided by total floor space.
- All, or 100% – overhead costs that are entirely related to prescription functions.

- None, or 0% – overhead costs that are entirely related to non-prescription functions.

Overhead costs that were considered *entirely prescription-related* include:

- Prescription department licenses.
- Prescription delivery expense.
- Prescription computer expense.
- Prescription containers and labels (For many pharmacies the costs associated with prescription containers and labels is captured in their cost of goods. Subsequently, it was often the case that a pharmacy was unable to report expenses for prescription containers and labels. In order to maintain consistency, a minimum allowance for prescription containers and labels was determined to use for pharmacies that did not report an expense amount for containers and labels. The allowance was set at the 85th percentile of prescription containers and labels expense per prescription for pharmacies that did report prescription containers and labels expense: \$0.2797 per prescription).
- Certain other expenses that were separately identified on lines 27-29 ²⁰ of the cost survey (Exhibit 2).

Overhead costs that were *not allocated as a prescription expense* include:

- Income taxes ²¹
- Bad debts ²²
- Advertising ²³

²⁰ "Other" expenses were analyzed to determine the appropriate basis for allocation of each expense: sales ratio, area ratio, 100% related to dispensing cost or 0% (not allocated).

²¹ Income taxes are not considered an operational cost because they are based upon the profit of the pharmacy operation. Although a separate line was provided for the state income taxes of corporate filers, these costs were not included in this study as a prescription cost. This provides equal treatment to each pharmacy, regardless of the type of ownership.

²² The exclusion of bad debts from the calculation of dispensing costs is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub.15-1, Section 304. "The allowance of unrecovered costs attributable to such bad debts in the calculation of reimbursement by the Program results from the expressed intent of Congress that the costs of services covered by the Program will not be borne by individuals not covered, and the costs of services not covered by the Program will not be borne by the Program." It is recognized that some bad debts may be the result of Medicaid co-payments that were not collected. However, it was not possible to isolate the amount of bad debts attributable to uncollected Medicaid co-payments from the survey data. Additionally, there may be programmatic policy reasons to exclude uncollected Medicaid co-payments from the calculation of the cost of dispensing. Inclusion of cost for uncollected co-payments in the dispensing fee might serve to remove incentives for pharmacies to collect Medicaid co-payments when applicable. Given that co-payments were established to bring about some measure of cost containment, it may not be in the best interest of a Medicaid pharmacy program to allow uncollected co-payments to essentially be recaptured in a pharmacy dispensing fee.

²³ The exclusion of most types of advertising expense is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15.1, Section 2136.2. "Costs of advertising to the general public which seeks to increase patient utilization of the provider's facilities are not allowable."

- Charitable Contributions²⁴

Certain costs reported on Lines 27, 28, and 29 of the cost survey were occasionally excluded. An example is freight expense, which usually relates only to nonprescription purchases or cost of goods sold.

The remaining expenses were assumed to be related to *both prescription and nonprescription sales*. Joint cost allocation is necessary to avoid understating or overstating the cost of filling a prescription.

Those overhead costs allocated on the *area ratio* (as previously defined) include:

- Depreciation
- Real estate taxes
- Rent²⁵
- Repairs
- Utilities

The costs in these categories were considered a function of floor space.²⁶ The floor space ratio was increased by 65% from that reported on the original cost survey to allow for waiting and counseling areas for patients and prescription department office area.²⁷ The resulting ratio was adjusted downward, when necessary, not to exceed the sales ratio (in order to avoid allocating 100% of these costs in the instance where the prescription department occupies the majority of the area of the store).

Overhead costs allocated using the *sales ratio* include:

²⁴ Individual proprietors and partners are not allowed to deduct charitable contributions as a business expense for federal income tax purposes. Any contributions made by their business are deducted along with personal contributions as itemized deductions. However, corporations are allowed to deduct contributions as a business expense for federal income tax purposes. Thus, while Line 19 on the cost report recorded the business contributions of a corporation, none of these costs were allocated as a prescription expense. This provides equal treatment for each type of ownership.

²⁵ The survey instrument included these special instructions for reporting rent: "Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only)." This treatment of related-party expenses is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3614: "Cost applicable to home office costs, services, facilities, and supplies furnished to you by organizations related to you by common ownership or control are includable in your allowable cost at the cost to the related organizations. However, such cost must not exceed the amount a prudent and cost conscious buyer pays for comparable services, facilities, or supplies that are purchased elsewhere."

²⁶ Allocation of certain expenses using a ratio based on square footage is consistent with Medicare cost reporting principles. See Provider Reimbursement Manual, CMS Pub. 15-2, Section 3617.

²⁷ The percentage increase for prescription department area to account for waiting and counseling area and prescription office area was based on an analysis of area data reported in the supplemental data section of the survey. Additional comments are provided in a subsequent section of this chapter.

- Personal property taxes
- Other taxes
- Insurance
- Interest
- Accounting and legal fees
- Telephone and supplies
- Dues and publications

Labor Costs

Labor costs are calculated by allocating total salaries, payroll taxes, and benefits based on the percent of time spent in the prescription department. The allocations for each labor category were summed and then divided by the number of prescriptions dispensed to calculate labor cost per prescription. There are various classifications of salaries and wages requested on the cost survey (Lines 31-44) due to the different cost treatment given to each labor classification.

Although some employee pharmacists spent a portion of their time performing nonprescription duties, it was assumed in this study that their economic productivity when performing nonprescription functions was less than their productivity when performing prescription duties. The total salaries, payroll taxes, and benefits of employee pharmacists (Lines 34-38 of the cost survey) were multiplied by a factor based upon the percent of prescription time. Therefore, a higher percentage of salaries, payroll taxes, and benefits was allocated to prescription labor costs than would have been allocated if a simple percent of time allocation were utilized. Specifically, the percent of prescription time indicated was adjusted by the following formula:²⁸

$$\frac{(2)(\%Rx\ Time)}{(1 + (\%Rx\ Time))}$$

The allocation of salaries, payroll taxes, and benefits for all other prescription employees (Lines 39-43) was based directly upon the percentage of time spent in the prescription department as indicated on the individual cost survey. For

²⁸ Example: An employee pharmacist spends 90 percent of his/her time in the prescription department. The 90 percent factor would be modified to 95 percent: $(2)(0.9)/(1+0.9) = 0.95$. Thus, 95 percent of the reported salaries, payroll taxes, and benefits would be allocated to the prescription department. It should be noted that most employee pharmacists spent 100 percent of their time in the prescription department.

example, if the reported percentage of prescription time was 75 percent and total salaries were \$10,000, then the allocated prescription cost would be \$7,500.

Owner Compensation Issues

The allocation of salaries, payroll taxes, and benefits of the owner pharmacists (Lines 31-33) was based upon the same modified percentage as that used for employee pharmacists. However, limitations were placed upon the allocated salaries, payroll taxes, and benefits of owner pharmacists. Since compensation reported for owner pharmacists are not costs that have arisen from arm's length negotiations, they are not similar to other costs. A pharmacy owner has a different approach toward other expenses than toward his/her own salary. In fact, owners often pay themselves above the market costs of securing the services of an employee pharmacist. This excess effectively represents a withdrawal of business profits, not a cost of dispensing. Some owners may underpay themselves for business reasons, which would also misrepresent the true dispensing cost.

A factor considered in determining the allocation of owner's salaries was the variability in productivity. For example, one owner pharmacist may dispense 30,000 prescriptions per year while another may dispense 5,000. Those owner pharmacists who dispensed a greater number of prescriptions were allowed a higher salary than were owner pharmacists who dispensed a smaller number of prescriptions. Since variance is not nearly as great with respect to employee pharmacists, the owner pharmacist's salary was subjected to limits based upon employee pharmacists' salaries per prescription.

Determining Owner Compensation Allowances

To estimate the cost that would have been incurred had an employee been hired to perform the prescription-related functions actually performed by the owner, a statistical regression technique was used. A bivariate plot shows the correlation between an independent (predictor) variable and a dependent (predicted) variable (Exhibit 9). The upper and lower limits on owner pharmacist salary were determined from a bivariate regression.²⁹ In order to accurately reflect the trend of decreasing marginal costs with increasing volume, a regression technique that fit the bivariate data to a logarithmic curve was used. The resulting regression equation to predict pharmacist labor cost at varying amounts of work performed is:

²⁹ Employee pharmacist salary per prescription was used to set limitations on owner pharmacist salary estimates due to the "arm's length" nature and lack of variance in employee productivity compared with owner productivity.

$$\text{Labor cost} = 35,867 \times \ln(\text{number of prescriptions dispensed}^{30}) - 268,616$$

(where \ln represents the natural logarithm function)

This equation was used to establish limits for allocating owner pharmacist costs. There was variation in actual employee salaries both above and below this regression line. This variation is measured by the equation's *standard error of the estimate*, \$31,473. The standard error of the estimate was used to construct upper and lower limits of owner pharmacist labor cost:

$$\begin{aligned} \text{Upper Limit} &= 35,867 \times \ln(\text{number of prescriptions dispensed}) - 216,848 \\ \text{Lower Limit} &= 35,867 \times \ln(\text{number of prescriptions dispensed}) - 276,590 \end{aligned}$$

These two constraints effectively set upper and lower thresholds at approximately the 30th and 95th percentiles of volume adjusted employee salaries. An additional constraint is a \$143,876 maximum salary and a \$13,186 minimum salary. These amounts are set at the 40th and 95th percentile of volume adjusted employee salaries.

There is no reason to believe that managerial or clerical duties performed by the non-pharmacist owners were more valuable to the prescription dispensing function than for other functions. As with other owners, the amount shown for salaries, payroll taxes, and benefits was not a result of arm's length negotiations. Therefore, an upper limit of \$62,400 and a lower limit of \$13,186 were placed upon these labor costs. These limits were chosen based on experience in prior surveys. No adjustment was made to the percentage of prescription time factor for owner non-pharmacists (Lines 31-33 of the cost survey).

A sensitivity analysis of the owner labor limits was performed in order to determine the impact of the limits on the overall analysis of pharmacy dispensing cost. Of the 390 pharmacies in the cost analysis, owner limits impacted 185 pharmacies, or 47.4%. Of these, 52 pharmacies had costs reduced as a result of application of these limits (on the basis that a portion of owner salary "cost" appeared to represent a withdrawal of profits from the business), and 133 pharmacies had costs increased as a result of the limits (on the basis that owner salaries appeared to be below their market value). In total, the final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.11 as a result of the owner salary limits.

Overall Labor Cost Constraints

An overall constraint was placed on the proportion of total reported labor that could be allocated as prescription labor. The constraint assumes that a functional relationship exists between the proportion of allocated prescription labor to total

³⁰ The number of prescriptions filled by the owner pharmacist was determined by multiplying the percent of owner-filled prescriptions (Lines 31-33 of the cost report) by the total number of prescriptions dispensed (Line a).

labor and the proportion of prescription sales to total sales. It is also assumed that a higher input of labor costs is necessary to generate prescription sales than nonprescription sales, within limits.

The parameters of the applied labor constraint are based upon an examination of data submitted by all pharmacies. These parameters are set in such a way that any resulting adjustment affects only those pharmacies with a percentage of prescription labor deemed unreasonable. For instance, the constraint would come into play for an operation that reported 75 percent pharmacy sales and 100 percent pharmacy labor (obviously, some labor must be devoted to generating the 25 percent nonprescription sales).

To determine the maximum percentage of total labor allowed, the following calculation was made:

$$\frac{0.3(\text{Sales Ratio})}{0.1 + (0.2)(\text{Sales Ratio})}$$

A sensitivity analysis of the labor cost restraint was performed in order to determine the impact of the limit on the overall analysis of pharmacy cost. The analysis indicates that of the 390 pharmacies included in the dispensing cost analysis, this limit was applied to 114 pharmacies. The final estimate of average pharmacy dispensing cost per prescription was decreased by approximately \$0.03 as a result of this limit.

Inflation Factors

All allocated costs for overhead and labor were totaled and multiplied by an inflation factor. Inflation factors are intended to reflect cost changes from the middle of the reporting period of a particular pharmacy to a common fiscal period ending December 31, 2006 (specifically from the *midpoint* of the pharmacy's fiscal year to the *midpoint* of the common fiscal period, June 30, 2006). The midpoint and terminal month indices used were taken from the U. S. Government Consumer Price Index (CPI), Urban Consumer (Exhibit 10). The use of inflation factors is preferred in order for pharmacy cost data from various fiscal years to be compared uniformly.

Dispensing Cost Analysis and Findings

The dispensing costs for all pharmacies in the sample are summarized in the following tables and paragraphs. Findings for all pharmacies in the sample are presented collectively, and additionally are presented for subsets of the sample based on pharmacy characteristics. There are several statistical measurements that may be used to express the central tendency of a distribution, the most common of which are the average, or mean, and the median. Findings are presented in the forms of means and medians, both raw and weighted.³¹

As is typically the case with dispensing cost surveys, statistical “outliers” are a common occurrence. These outlier pharmacies have dispensing costs that are not typical of the majority of pharmacies. Medians are sometimes preferred to averages (i.e., the arithmetic mean) in situations where the magnitude of outlier values results in an average that does not represent what is thought of as “average” or normal in the common sense.

For all pharmacies in the sample, findings are presented in Table 3.2.

Table 3.2 Cost Per Prescription – All Pharmacies

	Dispensing Cost
Unweighted Average (Mean)	\$9.63
Average (Mean) Weighted by Medicaid Volume	\$8.72
Unweighted Median	\$8.52
Median Weighted by Medicaid Volume	\$7.86

(Dispensing Costs have been inflated to the common point of June 30, 2006)

See Exhibit 11 for a histogram of the dispensing cost for all pharmacies in the sample. There was a large range between the highest and the lowest dispensing

³¹ **Different Measures of Central Tendency:**

Unweighted mean: the arithmetic average cost for all pharmacies.

Weighted mean: the average cost of all prescriptions dispensed by pharmacies included in the sample, weighted by prescription volume. The resulting number is the average cost for all prescriptions, rather than the average for all pharmacies as in the unweighted mean. This implies that low volume pharmacies have a smaller impact on the weighted average than high volume pharmacies. This approach, in effect, sums all costs in the sample and divides that sum by the total of all prescriptions in the sample. The weighting factor can be either total prescription volume or Medicaid prescription volume.

Median: the value that divides a set of observations (such as dispensing cost) in half. In the case of this survey, the median is the dispensing cost such that the cost of one half of the pharmacies in the set are less than or equal to the median and the dispensing costs of the other half are greater than or equal to the median.

Weighted Median: this is determined by finding the pharmacy observation that encompasses the middle value prescription. The implication is that one half of the prescriptions were dispensed at a cost of the weighted median or less, and one half were dispensed at the cost of the weighted median or more. Suppose, for example, that there were 1,000,000 Medicaid prescriptions dispensed by the pharmacies in the sample. If the pharmacies were arrayed in order of dispensing cost, the median weighted by Medicaid volume, is the dispensing cost of the pharmacy that dispensed the middle, or 500,000th prescription.

cost observed for pharmacies in the sample. However, the majority of pharmacies (80%) had dispensing costs between approximately \$6 and \$14.

Several pharmacies included in the cost analysis were identified as specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales. The analysis revealed significantly higher cost of dispensing associated with 12 pharmacies in the sample that provided significant levels of these services.³²

The difference in dispensing costs that were observed for providers of specialty services compared to those pharmacies that did not offer these specialty services is summarized in Table 3.3.

Table 3.3 Cost Per Prescription - Specialty Versus Other Pharmacies

Type of Pharmacy	Number of Pharmacies	Unweighted Average (Mean) Cost	Standard Deviation
Specialty Pharmacies (e.g., intravenous or infusion)	12	\$16.91	\$10.40
Other Pharmacies	378	\$9.40	\$3.83

(Dispensing costs have been inflated to the common point of June 30, 2006)

Pharmacies that dispense specialty prescriptions as a significant part of their business often have dispensing costs in excess of those found in a traditional pharmacy. The analyses summarized in Tables 3.4 and 3.5 below exclude the 12 specialty pharmacy providers. In making this exclusion, no representation is made that the cost structure of those pharmacies is not important to understand. However, it is reasonable to address issues relevant to those pharmacies separately from the cost structure of the vast majority of Louisiana Medicaid pharmacy providers that provide “traditional” pharmacy services.

Table 3.4 restates the measurements noted in Table 3.2 excluding pharmacies that dispensed significant volumes of specialty prescriptions.

³² In every pharmacy dispensing study where information on intravenous solution and home infusion dispensing activity has been collected by Myers and Stauffer, such activity has been found to be associated with higher dispensing costs. Discussions with pharmacists providing these services indicate that the activities and costs involved in these specialty prescriptions are significantly different from the costs incurred by the traditional retail or institutional pharmacy. The reasons for this difference include:

- Costs of special equipment for mixing and storage of specialty products.
- Higher direct labor costs because most specialty prescriptions must be prepared in the pharmacy, whereas the manual activities to fill traditional prescription are mainly limited to counting pills (or vials, etc.) and printing and affixing the label.
- There is often inconsistency in the manner in which prescriptions are counted in specialty pharmacies. A specialty pharmacy may mix and deliver many “dispensings” of a daily intravenous, home infusion or blood factor product from a single prescription, counting it in their records as only one prescription. This results in dispensing costs being spread over a number of prescriptions that is smaller than if the pharmacy had counted each refill as an additional prescription.

This latter factor, in particular, can have a dramatic impact on increasing a pharmacy’s calculated cost per prescription.

Table 3.4 Cost Per Prescription – Excluding Specialty Pharmacies

	Dispensing Cost
Unweighted Average (Mean)	\$9.40
Average (Mean) Weighted by Medicaid Volume	\$8.32
Unweighted Median	\$8.43
Median Weighted by Medicaid Volume	\$7.81

(Dispensing costs have been inflated to the common point of June 30, 2006)

Additional statistical measures of pharmacy dispensing cost are provided in Exhibit 12. For measurements that refer to the urban or rural location of a pharmacy, Myers and Stauffer used the pharmacies' zip code and tables from the U.S. Census Bureau to determine if the pharmacy was located in a Metropolitan Statistical Area (MSA). Pharmacies in an MSA were assigned an "urban" location flag; other pharmacies were assigned a "rural" location flag. A table of zip codes and their designation as urban or rural is included at Exhibit 13. It should be noted that zip codes can overlap parish boundaries; therefore the mapping of zip codes into parishes and a corresponding MSA should be considered an approximation.

A breakdown of dispensing cost by Medicaid region is included at Exhibit 14.

The relationship between total prescription volume and dispensing cost was especially pronounced. Pharmacies were classified into meaningful groups based upon their differences in total prescription volume. Dispensing costs were then analyzed based upon these volume classifications.

Table 3.5 Dispensing Cost by Pharmacy Total Annual Prescription Volume^A

Total Annual Prescription Volume of Pharmacy	Number of Stores	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
0 to 14,999	20	\$17.14	\$15.59
15,000 to 29,999	75	\$11.14	\$10.72
30,000 to 49,999	99	\$9.35	\$8.93
50,000 to 74,999	94	\$8.43	\$8.39
75,000 and Higher	90	\$7.29	\$7.19

^A Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

There is a significant correlation between a pharmacy's total prescription volume and the dispensing cost per prescription. This result is not surprising because many of the costs associated with a business operation, including the dispensing of prescriptions, have a fixed component that does not vary significantly with increased volume. For stores with a higher total prescription volume, these fixed costs are spread over a greater number of prescriptions resulting in lower costs

per prescription. A number of relatively low volume pharmacies in the survey skew the distribution of dispensing cost and increase the measurement of the unweighted average (mean) cost of dispensing. Means weighted by either Medicaid volume or total prescription volume may provide a more realistic measurement of typical dispensing cost.

Table 3.6 Statistics for Pharmacy Total Annual Prescription Volume^A

Statistic	Value
Mean	59,644
Standard Deviation	44,503
10 th Percentile	19,335
25 th Percentile	29,880
Median	48,645
75 th Percentile	70,277
90 th Percentile	116,399

^A Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A histogram of pharmacy total annual prescription volume and a scatter-plot of the relationship between dispensing cost per prescription and total prescription volume are included in Exhibit 15.

Several pharmacy attributes were collected on the cost survey. A summary of these attributes is provided at Exhibit 16.

Components of Dispensing Cost

The dispensing cost of the surveyed pharmacies was broken down into the various components of overhead and labor related costs. Table 3.7 displays the means of the various cost components for pharmacies in the sample. Labor-related expenses accounted for approximately 70% of overall prescription dispensing costs.

Expenses in Table 3.7 are classified as follows:

- Owner professional labor – owner’s labor costs were subject to constraints in recognition of its special circumstances as previously noted.
- Employee professional labor consists of employee pharmacists. Other labor includes the cost of delivery persons, interns, technicians, clerks and any other employee with time spent performing the prescription dispensing function of the pharmacy.

- Building and equipment expense includes depreciation, rent, building ownership costs, repairs, utilities and any other expenses related to building and equipment.
- Prescription-specific expense includes pharmacist-related dues and subscriptions, prescription containers and labels, prescription-specific computer expenses, prescription-specific delivery expenses (other than direct labor costs) and any other expenses that are specific to the prescription dispensing function of the pharmacy.
- Other overhead expenses consist of all other expenses that were allocated to the prescription dispensing function of the pharmacy including interest, insurance, telephone, and legal and professional fees.

Table 3.7 Components of Prescription Dispensing Cost

Type of Expense	Unweighted Average (Mean) Cost	Average (Mean) Weighted by Medicaid Volume
Owner Professional Labor	\$1.534	\$1.352
Employee Professional and Other Labor	\$5.116	\$4.507
Building and Equipment	\$0.619	\$0.542
Prescription Specific Expenses (incl. delivery)	\$0.747	\$0.693
Other Overhead Expenses	\$1.379	\$1.225
Total	\$9.395	\$8.319

^A Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

A pie chart of the components of prescription dispensing cost is provided in Exhibit 17.

Expenses Not Allocated to the Cost of Dispensing

In the following Table 3.8, measurements are provided for certain expenses that were not included in the cost of dispensing. Reasons for not including these costs were discussed previously. For all of the expenses below, average cost per prescription was calculated using a sales ratio as the basis for allocation.

Table 3.8 Non-Allocated Expenses Per Prescription^A

Expense Category	Unweighted	Average
	Average	(Mean)
	(Mean) Cost	Weighted by
		Medicaid
		Volume
Bad Debts	\$0.060	\$0.068
Charitable Contributions	\$0.013	\$0.010
Advertising	\$0.269	\$0.223

^A Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

Overview of Data from Supplemental Survey Section

At the request of representatives of the pharmacy industry in Louisiana, the Department of Health and Hospitals instructed Myers and Stauffer to include an additional section to the survey instrument that was drafted by representatives of the Louisiana Independent Pharmacies Association and the National Association of Chain Drug Stores. This was included as “Section III – Additional Data”. Comments regarding the data obtained in this section and their impact on the study are included below.

Floor Space

Section III of the survey included several lines for pharmacies to report additional measurements of pharmacy floor space. As previously noted, Myers and Stauffer calculated an area ratio, derived from the pharmacies’ reporting of the prescription dispensing area square footage and the total store square footage. The area ratio is used as part of the process to allocate expenses to estimate the cost associated with the dispensing of prescriptions. Based on the survey instructions, pharmacies were to exclude patient waiting area and prescription-related office area from the measurement of the prescription dispensing area. Myers and Stauffer used a standard percentage mark-up of the reported space to account for these additional prescription-related areas. In the experience of Myers and Stauffer, using simplified standards for area measurement has helped to obtain more consistent data from pharmacies.

To consider the reasonableness of the standard percentage mark-up, Myers and Stauffer evaluated the additional floor space measurements collected by the supplemental survey form. Of the six measurements collected on the supplemental survey form, Myers and Stauffer considered three of these

additional measurements to be relevant to an evaluation of the area ratio calculation: waiting area, counseling area and prescription-related office area. Two of the additional area measurements collected related to prescription storage space. Myers and Stauffer did not evaluate the measurements reported for prescription storage space because the survey form did not collect area for non-prescription storage. Area associated with over-the-counter medications was also not considered because for purposes of this survey, that area is not directly related to the dispensing of prescription medications.

There were 247 pharmacies that reported measurements for waiting area, counseling area or prescription-related office area. Myers and Stauffer analyzed these measurements as a ratio of the "base" prescription department area reported on page 3, line (3) of the survey form. To calculate this ratio, the area reported as waiting, counseling and office area was capped such that the area considered, in addition to the "base" prescription department, could not exceed the total store area reported. The median ratio calculated for these stores was 42.0%. The mean ratio was 64.6%.

In discussions prior to starting the survey process, Myers and Stauffer had originally proposed to use a mark-up ratio of 50% to calculate the area ratio. The use of a 50% ratio would appear to be reasonable based on the median measurement of the ratio calculated from the supplemental survey data. However, since the mean ratio of additional waiting, counseling and office area could potentially be interpreted to suggest the appropriateness of a higher ratio, Myers and Stauffer has modified the area ratio calculation methodology to use a 65% mark-up factor. Since not all pharmacies responded to the supplemental survey section, this standard mark-up methodology was used for all pharmacies regardless of additional area data reported on the supplemental survey section.

Additional Overhead Data Collected

The supplemental survey section also collected additional overhead expense data relating to rent expenses, interest expenses, litigation expenses, marketing expenses, computer expenses and labels and container expenses. Although brief comments on the data obtained are offered below, not all of the data reported in this section was incorporated into the methodology used to calculate the cost of dispensing.

The supplemental survey section collected several data items relating to rent expense. As previously indicated in the description of the methodology for overhead expense allocation, Myers and Stauffer included instructions in the survey that pharmacies should report rent expense only if it was the result of an arm's length transaction. If a pharmacy rented its building from an owner or related party of the pharmacy, the pharmacy was instructed to report only actual building ownership costs (e.g., depreciation, taxes, insurance, interest and repair

expenses). A number of pharmacies reported amounts in the various rent fields of the supplemental survey section. However, for the methodology to calculate the cost of dispensing, Myers and Stauffer has relied exclusively on the rent and building ownership costs captured on page 3 of the survey instrument. This treatment is consistent with Medicare and Medicaid cost reporting principles related to related-party transactions.

The supplemental survey section collected several data items relating to interest expense, litigation expense and marketing expense. However, the number of pharmacies responding to these items was extremely limited. There were five pharmacies that responded to the question about interest expense, seven pharmacies responded to the question about litigation expense, and nine pharmacies responded to any of the three lines relating to marketing expense. Myers and Stauffer did not use this interest expense, litigation expense and marketing expense data in the methodology to calculate the cost of dispensing.

A greater number of pharmacies responded to items in the supplemental survey section relating to computer (78 pharmacies), switching fees (64 pharmacies) and transaction (19 pharmacies) expenses. However, it was unclear from the data that the expenses being reported were supplemental to expenses reported on page 3 of the survey form. In some cases, the expenses reported on the supplemental survey form appeared to duplicate expenses reported on page 3 of the survey form. Myers and Stauffer did not use this additional computer, switching fees and transaction expense data in the methodology to calculate the cost of dispensing.

There were 49 pharmacies that reported containers and labels expense on the supplemental survey form. Most of these pharmacies had not reported containers and labels expenses on page 3 of the survey. It was unclear why some pharmacies reported containers and label expense on the supplemental survey as opposed to reporting the expense on page 3 of the survey form. Myers and Stauffer incorporated the containers and labels expense reported in the supplemental survey section into the determination of containers and labels cost allowance (described previously).

Conclusions

Myers and Stauffer performed a study of the cost of dispensing prescription medications to Medicaid recipients in the state of Louisiana. The dispensing cost study considered operational data, professional services data and overhead data relating to the costs of pharmacy operation. Based on our analysis of dispensing costs of pharmacies participating in the Louisiana Medicaid program, the

statewide average³³ dispensing cost per prescription for all payer types was \$8.32. This figure excludes 12 specialty pharmacies, which as noted previously exhibited a significantly different cost structure.

³³ The statewide average dispensing cost per prescription is the mathematical mean, weighted by each pharmacy's Medicaid volume. That is, the average dispensing cost per prescription of a pharmacy with higher Medicaid volume is weighted more in this average than a pharmacy with lower Medicaid volume.

IV. Analysis of Pharmacy Reimbursement Rates by Other Payers

State Medicaid Pharmacy Reimbursement

Dispensing fees for Medicaid programs vary from state to state and have typically been based on an analysis of costs incurred by pharmacies within the state as well as other market factors. An overview of Medicaid dispensing fees and ingredient reimbursement is included in the following table.

Table 4.1 State Medicaid Pharmacy Reimbursement Rates³⁴

State	Dispensing Fee	Ingredient Reimbursement
Alabama	\$5.40	AWP - 10% WAC + 9.2%
Alaska	3.45 to 11.46	AWP - 5%
Arizona	\$2.00	AWP - 15%
Arkansas	\$5.51	B: AWP - 14% G: AWP - 20%
California	\$7.25 (\$8.00 LTC)	AWP - 17%
Colorado	\$4.00; \$1.89 for Institutions	B: AWP - 13.5% G: AWP - 35%
Connecticut	\$3.60	B: AWP - 14% G: AWP - 40%
Delaware	\$3.65	AWP - 14% AWP - 16% (LTC)
DC	\$4.50	AWP - 10%
Florida	\$4.23	AWP - 15.45% WAC+5.75%
Georgia	\$4.33 to \$4.63 (+\$0.50 for generics)	AWP - 11%
Hawaii	\$4.67	AWP - 10.5%
Idaho	\$4.94 (\$5.54 for unit dose)	AWP - 12%
Illinois	B: \$3.40 G: \$4.60	B: AWP - 12% G: AWP - 25%
Indiana	\$4.90	B: AWP - 16% G: AWP - 20%
Iowa	\$4.26	AWP - 12%
Kansas	\$3.40	B: AWP - 13% G: AWP - 27%
Kentucky	\$4.51	AWP - 12%
Louisiana	\$5.77	AWP - 13.5% (AWP - 15% for chains)
Maine	\$3.35	AWP - 15%
Maryland	B: \$2.69 G: \$3.69 (+\$1.00 for LTC)	AWP - 12% WAC + 8%
Massachusetts	\$3.50 - 5.00	WAC + 5%
Michigan	\$2.50 (\$2.75 LTC)	AWP - 13.5% (1-4 stores) AWP - 15.1% (5+ stores)

³⁴ Source: CMS, "Medicaid Prescription Reimbursement Information by State - Qtr Ending September 2006". See http://www.cms.hhs.gov/MedicaidDrugRebateProgram/08_MdPresReimInfo.asp.

State	Dispensing Fee	Ingredient Reimbursement
Minnesota	3.65 (+0.50 unit dose)	AWP - 12%
Mississippi	\$3.91	B: (AWP - 12%/WAC + 9%) G: AWP - 25%
Missouri	\$4.09	AWP - 10.43% WAC + 10%
Montana	\$4.70	AWP - 15%
Nebraska	\$3.27 to \$5.00	AWP - 11%
Nevada	\$4.76	AWP - 15%
New Hampshire	\$1.75	AWP - 16%
New Jersey	\$3.73	AWP - 12.5%
New Mexico	\$3.65	AWP - 14%
New York	B:\$3.50 G:\$4.50	B: AWP -12.75% G: AWP - 16.5%
North Carolina	B:\$4.00 G:\$5.60	AWP - 10%
North Dakota	B:\$4.60 G:\$5.60	AWP - 10% WAC +12.5%
Ohio	\$3.70	AWP - 14.4% WAC + 7%
Oklahoma	\$4.15	AWP - 12.0%
Oregon	Retail: \$3.50 Inst:\$3.91	AWP - 15% (retail) AWP - 11% (institutional)
Pennsylvania	\$4.00	AWP - 15% WAC + 6%
Rhode Island	\$3.40 LTC: \$2.85	WAC +5%
South Carolina	\$4.05 LTC: \$3.15	AWP - 10%
South Dakota	\$4.75 (\$5.55 for unit dose)	AWP - 10.5%
Tennessee	\$2.50	AWP - 13%
Texas	\$5.14	AWP - 15% WAC + 12%
Utah	\$3.90 (urban) \$4.40 (rural)	AWP - 15%
Vermont	\$4.75	AWP - 11.9%
Virginia	\$4.00 (\$5.00 for unit dose)	AWP - 10.25%
Washington	\$4.20 to \$5.20	B: AWP - 14% G: AWP - 50%
West Virginia	B:\$2.50 G:\$5.30	B: AWP - 15% G: AWP - 30%
Wisconsin	\$4.88	AWP - 11.25%
Wyoming	\$5.00	AWP - 11%

Pharmacy dispensing fees for state Medicaid pharmacy programs range from under \$2 to over \$11. Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17%, to a high of AWP minus 5%. As can be observed in Table 4.1, the dispensing fee and ingredient reimbursement formulas used in various states are often based on multiple numeric values, using different factors for different drug products. In order to evaluate how Louisiana Medicaid pharmacy reimbursement policies compare to other state Medicaid programs, we estimated a single payment rate for each state's dispensing fee, and estimated a single ingredient rate for brand name drug products. With these conversions, we

developed statistics presenting average reimbursement rates for all states, which are shown in Table 4.2.

Table 4.2 Average State Medicaid Pharmacy Reimbursement – Brand Name Drugs

Pharmacy Reimbursement Component	Mean	Median
Dispensing Fee	\$4.25	\$4.15
Ingredient Reimbursement (Brand Name Drugs)	AWP – 12.9%	AWP – 13.0%

The maximum dispensing fee for Louisiana Medicaid (\$5.77) falls at approximately the 96th percentile of all state Medicaid dispensing fees (i.e., 96% of states pay equal to or less than Louisiana Medicaid). The ingredient reimbursement for brand name drug products under Louisiana Medicaid falls at approximately the 34th percentile of all state Medicaid ingredient reimbursement rates for brand name drug products (i.e., 34% of states pay equal to or less than Louisiana Medicaid).³⁵

Private Payer Pharmacy Reimbursement

Pharmacy reimbursement rates paid by private third party payers (typically through networks operated by pharmaceutical benefits managers, or PBMs) have been researched and reported in other publications. One survey, published in 2005, reported average dispensing fees to retail pharmacies for brand name drugs of \$1.87 and average ingredient reimbursement of AWP minus 15.3%.³⁶ Private payer pharmacy reimbursement rates have declined in recent years with respect to both the dispensing and ingredient components (relative to AWP) of reimbursement.

³⁵ The ingredient allowance for Louisiana Medicaid for single-source products is AWP minus 15% for chain pharmacies and AWP minus 13.5% for non-chain pharmacies. The Department of Health and Hospitals defines a chain as having more than 15 pharmacies under common ownership and enrolled in Louisiana Medicaid. To simplify discussion of state-to-state comparisons, the percentile calculation assumes the midpoint of the rates for chain and non-chain pharmacies: AWP minus 14.25%.

³⁶ See *The Prescription Drug Benefit Cost and Plan Design Survey Report*, 2006 Edition, Pharmacy Benefits Management Institute, Inc. and Takeda Pharmaceuticals North America, Inc. Survey data is based on data collected in fall 2005. Values cited are for the South region.

Conclusions

State Medicaid agencies use a wide variety of reimbursement rates in their pharmacy programs. Pharmacy dispensing fees in these programs range from under \$2 to over \$11. At \$5.77, the maximum dispensing fee for Louisiana Medicaid falls at approximately the 96th percentile of all state Medicaid dispensing fees. Ingredient reimbursement for brand name drug products ranges from a low of AWP minus 17% to a high of AWP minus 5%. At AWP minus 15% for chain pharmacies and AWP minus 13.5% for non-chain pharmacies, the ingredient reimbursement for brand name drug products under Louisiana Medicaid falls at approximately the 34th percentile of all state Medicaid ingredient reimbursement rates for brand name drug products.

Based on published data, it appears that private third party payers are reimbursing for pharmaceuticals at rates less than those paid by Louisiana Medicaid. Additionally, private third party plans appear to pay dispensing fees that are less than dispensing costs, (see discussion of dispensing cost in Chapter 3). However, the data indicates that most third party prescription plans reimburse for ingredients at levels that exceed the pharmacy's acquisition cost for prescription drug products.

Exhibit 1
Louisiana Revised Statutes
46:153.3(B)(1)

Louisiana RS 46:153.3B(1)

B.(1)(a) The department may limit ingredient reimbursement for multi-source prescription drugs in accordance with state and federal law.

(b)(i) The legislature finds the following:

(aa) Many pharmacies are in critical financial condition as a result of the implementation of Medicare Part D and from the uncompensated care that pharmacies provided to evacuees during the aftermath of Hurricanes Katrina and Rita.

(bb) Medicaid reimbursement rates for the dispensing fee component of prescription drugs have not been increased since 1994.

(cc) The enactment of the Deficit Reduction Act of 2005 will result in significantly reduced reimbursement rates for the ingredient cost of generic prescription drugs in the medical assistance program.

(dd) The Centers for Medicare and Medicaid Services (CMS) has issued guidance encouraging states to continue paying pharmacists more in dispensing fees to support state savings from greater use of generic prescription drugs.

(ee) Pharmacy is a vital link in the health care delivery system of the state and adequate access to prescription drugs, supplies, and pharmacist services for Louisiana citizens are in jeopardy.

(ii) The legislature further finds that the current Medicaid dispensing fee reimbursement rates are inadequate, that a reasonable dispensing fee is necessary to assure adequate access by Medicaid beneficiaries to prescription drugs, supplies, and pharmacist services, and that a rate of at least fifteen dollars per prescription on all prescription drugs for which a federal upper limit has been set or is set in the future, and at least ten dollars per prescription on all other prescription drugs would assure adequate access.

(iii) The legislature further finds that time is of the essence and that all steps necessary to implement the rate increase pursuant to Subparagraphs (c) and (d) of this Paragraph be taken timely so that an increase in the Medicaid dispensing fee begins on January 1, 2007.

(c) The legislature recognizes that any change in the rate of reimbursement by the medical assistance program must be submitted to and approved or deemed approved by CMS in order to receive federal matching funds. It is the intent of the legislature that the department shall submit to CMS for approval a state plan amendment reflective of the legislative findings in Items (B)(1)(b)(i) and (ii) of this Section and shall negotiate with CMS to obtain the reimbursement rates that

assure adequate access to prescription drugs, supplies, and pharmacist services in accordance with Item (B)(1)(b)(ii) of this Section.

(d) The department shall submit a state plan for increased pharmacy dispensing fees as soon as practical. Provided, however, no increase in the dispensing fee rate shall be implemented until CMS shall approve or deem approved a specific rate for pharmacy services, and subject to the conditions of Subparagraph (e) of this Paragraph.

(e) Upon CMS approving or deeming approved the state plan amendment, the Department of Health and Hospitals shall submit for approval by the commissioner of administration and the Joint Legislative Committee on the Budget a funding plan to implement the approved dispensing fee as of January 1, 2007. The funding plan shall include any funds appropriated or allocated by the legislature specifically for this purpose and the cost savings that accrue from implementation of AMP reimbursement rates mandated by CMS, as provided in House Bill No. 1* of the 2006 Regular Session of the Legislature. Provided, however, in the event that available funds are insufficient to fund the pharmacy dispensing fee as approved by CMS, the Department of Health and Hospitals shall submit its funding plan with a pharmacy dispensing fee that does not exceed the available funding.

Exhibit 2
Louisiana Medicaid
Pharmacy Cost Report

Agency Use Only

Page 1
(11/2006)**Louisiana Medicaid Pharmacy Cost Report**

Medicaid Provider No.

Return Completed Forms to:
Myers and Stauffer LC
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211**2006**

ROUND ALL AMOUNTS TO NEAREST DOLLAR OR WHOLE NUMBER

Complete and return by **DECEMBER 31, 2006**

Instructions are enclosed. Call toll free (800) 374-6858 if you are having difficulty completing this report.

Name of Pharmacy _____ Telephone No. () _____
 Street Address _____ Fax No. () _____
 City _____ Parish _____ State _____ Zip Code _____

DECLARATION BY OWNER AND PREPARER

I declare that I have examined this cost report including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, complete, and in agreement with the related Books or Federal Income Tax Return, except as explained in the Reconciliation. Declaration of preparer (other than owner) is based on all information of which preparer has any knowledge.

Your Signature	Print/Type Name	Title/Position	Date
Preparer's Signature (other than owner)		Title/Position	Date
Preparer's Street Address	City and State	Zip	Phone Number

SECTION IA -- PHARMACY ATTRIBUTES**List the total number of all prescriptions dispensed during the fiscal year as follows:**

(a) **New** _____ **Refill** _____ **Total** _____

(b) Type of Ownership
 1. ☐ Individual 2. ☐ Corporation 3. ☐ Partnership 4. ☐ Other

(c) Location
 1. ☐ Medical Office Building 2. ☐ Shopping Center
 3. ☐ Separate or downtown 4. ☐ Grocery Store / Mass Merchant
 5. ☐ Other (specify) _____

(d) Ownership Affiliation
 1. ☐ Independent (1 to 15 LA Medicaid pharmacies) 2. ☐ Chain (more than 15 LA Medicaid pharmacies)
 3. ☐ Institutional (service to long-term care facilities only) 4. ☐ Other (specify) _____

(e) What is the approximate percent of your prescriptions dispensed to long-term care facilities? _____

(f) Do you own your building or lease from a related party (i.e., yourself, family member, or related corporation)? If so, mark yes.
 1. ☐ Yes 2. ☐ No

	Do you dispense in anything other than traditional packaging to long-term care facilities? If yes, indicate how:	
(g)	1. <input type="checkbox"/> Unit Dose	2. <input type="checkbox"/> Modified Unit Dose (Bingo cards/blister packs)
	3. <input type="checkbox"/> Both	4. <input type="checkbox"/> No Unit Dose
	What is the approximate percent of all prescriptions dispensed in unit dose packaging? _____%	
(h)	If you checked box 1, 2, or 3 of (g), what percent of unit dose packaging is: 1. Purchased from manufacturers _____% 2. Prepared in the pharmacy _____%	
(i)	What percent of total prescriptions filled are delivered? _____	
(j)	What percent of Medicaid prescriptions filled are delivered? _____	
	Are you presently providing home IV or infusion therapies and/or enteral nutrition therapy?	
(k)	1. <input type="checkbox"/> Yes	2. <input type="checkbox"/> No
	If yes, what is the dollar amount of your sales for those Rx's? \$ _____	
	Are you presently providing blood factors or derivatives?	
(l)	1. <input type="checkbox"/> Yes	2. <input type="checkbox"/> No
	If yes, what is the dollar amount of your sales for those Rx's? \$ _____	
(m)	What is the approximate percent of your prescriptions dispensed that are compounded? _____%	
(n)	How many hours per week is your pharmacy open? _____ Hours	
(o)	How many years has a pharmacy operated at this location? _____ Years	
(p)	Do you provide 24-hour emergency services for pharmaceuticals? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
(q)	What is the approximate percentage of prescriptions dispensed with third party reimbursement (including Medicaid)? _____%	
(r)	Do you allow prescription sales on credit? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
	Does your pharmacy dispense prescriptions by mail? 1. <input type="checkbox"/> Yes 2. <input type="checkbox"/> No	
(s)	If yes, complete the following, otherwise skip to Section IB. What is the approximate percentage of the total number of prescriptions that are dispensed by mail? _____%	

SECTION IB -- OTHER INFORMATION

List any additional information you feel contributes significantly to your cost of filling a prescription. Also, if you have a significant amount of non-retail sales of drugs at cost, please note the amount and if it is included in line (1), column (1) on page 3.

Round all amounts to nearest dollar or whole number.

SECTION IIA -- SALES AND FLOOR SPACE

	Prescription Drugs Only	Total Store Including Prescription Drugs	Line No.
Sales (Excluding Sales Tax)	_____	_____	(1)
Cost of Goods Sold	_____	_____	(2)
Floor Space (Retail area only). Measure. Do not estimate.	_____ Sq. Ft	_____ Sq. Ft.	(3)

SECTION IIB -- OVERHEAD EXPENSES

Complete this section by referring to the line numbers in the left columns that correspond to federal income tax return lines or use internal financial statements.

The following information is from tax / fiscal year ending..... ____ / ____ / ____ (4)

**2005 Tax Form
Number**

1040C	1065	1120	1120S		Total Expense	Agency Use Only	Line No.
13	16a	20	14a	Depreciation (this fiscal year only - not accumulated).....	_____	_____	(5)
23	14	17	12	Taxes (a) Personal Property Taxes Paid.....	_____	_____	(6)
				(b) Real Estate Taxes.....	_____	_____	(7)
				(c) Payroll Taxes.....	_____	_____	(7a)
				(d) Sales Taxes.....	_____	_____	(7b)
				(e) State Income Tax (Corporations Only).....	_____	_____	(8)
				(f) Any other taxes (specify each type and amount)	_____	_____	(9)
20b	13	16	11	Rent (a) Building Rent (See Instructions).....	_____	_____	(10)
20a	13	16	11	(b) Equipment and Other.....	_____	_____	(11)
21	11	14	9	Repairs.....	_____	_____	(12)
15	20	26	19	Insurance (a) Workers Comp. and Employee Medical.....	_____	_____	(13)
15	20	26	19	(b) Other.....	_____	_____	(14)
16a&b	15	18	13	Interest.....	_____	_____	(15)
17	20	26	19	Legal and Professional Fees.....	_____	_____	(16)
27	20	26	19	Dues and Publications.....	_____	_____	(17)
27	12	15	10	Bad Debts (this fiscal year only - not accumulated).....	_____	_____	(18)
		19		Charitable Contributions (Corporations Only).....	_____	_____	(19)
25	20	26	19	Telephone.....	_____	_____	(20)
25	20	26	19	Heat, Water, Lights, Sewer, Trash and other Utilities.....	_____	_____	(21)
18&22	20	26	19	Operating and Office Supplies (Exclude Rx containers and labels)...	_____	_____	(22)
8	20	23	16	Advertising.....	_____	_____	(23)
27	20	26	19	Rx Computer Expenses (See Instructions).....	_____	_____	(24)
9,27	20	26	19	Rx Delivery Expenses (See Instructions).....	_____	_____	(25)
27	20	26	19	Rx Containers and Labels (See Instructions).....	_____	_____	(26)
Various	18+	24+	17+	Other Expenses (Not included elsewhere) _____	_____	_____	(27)
	19+	25+	18+	(Attach Schedule if necessary) _____	_____	_____	(28)
	20	26	19	(Specify each item and corresponding amount) _____	_____	_____	(29)
Total Overhead Expenses [Add Line (5) through Line (29)]					_____	_____	(30)

SECTION IIC -- PERSONNEL COSTS -- List each person separately (except Line 44). Attach schedule if necessary.

	Check if RPh	Estimate Percent of Rxs Dispensed by Each RPh	Annual Salaries, Bonuses and/or Drawings	AGENCY USE ONLY	No. Weeks Employed This Fiscal Year	Average Weekly Hours		Line No.
						Total Store Including Rx Dept.	Rx Dept. Related Duties Only	
Owners, Individual Proprietors, Partners, and Stockholders.....	_____	_____	_____	_____	_____	_____	_____	(31)
	_____	_____	_____	_____	_____	_____	_____	(32)
	_____	_____	_____	_____	_____	_____	_____	(33)
Employee and Relief Pharmacists.....	_____	_____	_____	_____	_____	_____	_____	(34)
	_____	_____	_____	_____	_____	_____	_____	(35)
	_____	_____	_____	_____	_____	_____	_____	(36)
	_____	_____	_____	_____	_____	_____	_____	(37)
Interns.....	_____	_____	_____	_____	_____	_____	_____	(38)
Subtotal:		100%	XXXXX	XXXXX	XXXXX	XXXXX	XXXXX	(38a)
Rx Delivery.....	XXX	XXXXXXXXXX	_____	_____	_____	_____	_____	(39)
	XXX	XXXXXXXXXX	_____	_____	_____	_____	_____	(40)
Other Employees with Time in Rx Dept. (Including Rx Technicians).....	XXX	XXXXXXXXXX	_____	_____	_____	_____	_____	(41)
	XXX	XXXXXXXXXX	_____	_____	_____	_____	_____	(42)
	XXX	XXXXXXXXXX	_____	_____	_____	_____	_____	(43)
All Non-Rx Employees.....	XXX	XXXXXXXXXX	_____	_____	XXXXX	XXXXX	XXXXX	(44)
TOTALS.....	XXX	XXXXXXXXXX	=====	=====	XXXXX	XXXXX	XXXXX	(45)

SECTION II D -- RECONCILIATION WITH TAX RETURN (OR BOOKS)

2005 Tax Form Number			
1040C	1065	1120	1120S

28	21	27	20		Column 1	Column 2	
					Cost Report Amounts	Books or Tax Return Amounts	
				Total Expenses per Tax Return / Books (Circle one used).....		_____	(46)
				Enter Amount from Line (30).....	_____		(47)
				Enter Amount from Line (45).....	_____		(48)
				Total Expenses per Cost Report [Add Lines (47) and (48)].....	_____		(49)
				Specify Items with Amounts that are on Cost Report but not on Tax Return (or Books)_____		_____	(50)
				_____		_____	(51)
				Specify Items with Amounts that are on Tax Return (or Books) but not on this Cost Report_____	_____		(52)
				_____	_____		(53)
				Total [Add Lines (46) to (53)] Column Totals Must be Equal..	=====	=====	(54)

Section III – Additional Data

General Instructions

Some of the questions in the earlier Sections instructed you not to report certain expenses, floor areas or other similar data. This Section is intended to capture this actual cost and space data. Because some of the survey calculations may use these figures, their accuracy is very important to the survey. Please complete these questions using information for your most recently completed fiscal year. Round all amounts to the nearest dollar or whole number.

Sales and Floor Space

As noted in the instructions, **floor space** will be used in allocating certain expenditures so accuracy is important. Line 3 of the survey asked for the square footage related to Prescription Drugs Only and for the Total Store Including Prescription Drugs. The instructions told you to exclude any patient waiting area, prescription-related office and storage. The instructions did not ask for space used for over-the-counter medications. Provide the square footage for all of these excluded areas. These areas must be located within this particular retail location.

Waiting Area	_____	Sq. Ft
Counseling Area	_____	Sq. Ft
Pharmacy Department Office Space	_____	Sq. Ft
On-Site Prescription Storage	_____	Sq. Ft
Other On-Site Storage for Pharmacy-Only Items	_____	Sq. Ft
Over-the-Counter Medications Area	_____	Sq. Ft

Overhead

Rental

If you reported that you lease your building from a related party, please report the amount of actual rent expense for the year (per books).

Building Rent _____

If you own your building, please indicate the year in which you purchased the building. _____

If you rent the building from a related party, please indicate the age of the building. _____

What is the prevailing rental rate (per square foot) for similar commercial properties in the area in which this particular store is located? _____ (Per Sq. Ft)

Interest

Line 15 of the survey instructed you to include interest expenses unrelated to prescription drug purchases. Please report any other interest not reported in line 15.* _____

Litigation Expenses

Line 16 of the survey instructed you to include legal expenses unrelated to litigation. Please report any legal expenses not reported in line 16.* _____

Marketing and Outreach

Please provide any Pharmacy Department marketing or outreach expenses that are not included on Line 23 ("Advertising") or any other line on the main survey.

Marketing	_____
Outreach	_____
Community Education	_____

Rx Computer Expenses

If the computer in the prescription department is used for other than prescription-related business, you were instructed to report computer expenses on Line 29 of the main survey. If your company uses a standard procedure to allocate these shared computer expenses between the prescription department and the rest of the store, please provide the allocated amounts.

Expense for shared computers allocated to prescription-related business _____
Expense for shared computers allocated to the rest of the store _____

Switching Fees and Contractual Transaction Fees

If you did not include switching fees in your computer expenses, or if you did not include any contractual per-transaction fees for electronic claims that are charged under any contracts in any of the expenses you reported on any line of the Cost Report, please include switching fees and contractual per-transaction expenses here.

Switching fees _____

Contractual per-transaction fees _____

Labels and Containers

If you did not report the actual expense for labels and containers on Line 26 and left it blank, please report the actual expense for labels and containers here. _____

Exhibit 3
Louisiana Medicaid
Pharmacy Cost Report
Instructions

Louisiana Medicaid Pharmacy Cost Report Instructions

Survey Forms by

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211
800-374-6858

PURPOSE: The purpose of this survey is to determine the approximate cost of dispensing prescriptions in the State of Louisiana.

WHO MUST FILE THIS FORM

Except for the following, all sampled Medicaid pharmacies must file this cost report:

- ☐ New pharmacies that were in business less than six months during the reporting period
- ☐ Pharmacies with a change of ownership that resulted in less than six months in business during the reporting period

If your pharmacy meets either of the two exceptions listed above, check the box next to the explanation describing your business, write your pharmacy name and provider number, sign your name, and return only this page to the address above.

Medicaid Provider No.	Provider Name	Phone No.	Signature of Owner
-----------------------	---------------	-----------	--------------------

GENERAL INSTRUCTIONS

If any assistance is needed in completing this survey, call toll-free (800) 374-6858. Complete these forms using your most recently completed fiscal year (e.g., December 31, 2005) and **return them by December 31, 2006**. Most retail pharmacies can complete the survey form by using their most recent federal income tax return. Most expense line items can be transferred directly from a line on the tax return to a line on the cost report. Line reference numbers of four tax forms are listed on the left side of the cost report. Simply locate the column for your tax form.

If you prefer, send us a copy of your income tax return (Form 1065, 1120, 1120S, or Schedule C of Form 1040 including supporting schedules) or your financial statements and we will complete the overhead expenses, Section IIB, Page 3 and Section IID, Page 4, for you. **You will still need to fill in the remaining sections of the cost report.** If you send a copy of your tax return, identify any expenses that are 100% Rx-Department expenses such as continuing education, and identify any expenses that are 100% non-Rx Department expenses such as fountain expenses, etc. By sending any of these tax forms, you will not be providing us with any information other than that requested if you completed the survey yourself.

Round all amounts to the nearest dollar or whole number.

Louisiana Medicaid Pharmacy Cost Report – Instructions

Multiple Location/Chain Pharmacies

Central administration expenses incurred by multiple location and/or chain pharmacies shall be reported on lines 27, 28, and/or 29. Report the expense allocated to each store. Methods of allocation must be reasonable and conform to generally accepted accounting principles. Warehousing expense must be separately identified and entered on lines 27, 28 and/or 29.

SECTION IA --- PHARMACY ATTRIBUTES

The information gathered from your answers to these questions will be analyzed to determine its relationship to your cost of dispensing a prescription. It may be necessary to provide estimates for some answers; estimate as carefully and accurately as possible.

Line (a) **“Prescriptions Dispensed.”** Report the total number of all prescriptions filled **during the fiscal year** of the costs reported on pages 3 and 4 of this cost report. This information may be kept on a daily or monthly log or on your computer.

SECTION IIA --- SALES AND FLOOR SPACE

Line (1) **List total store sales excluding sales tax.** Total store sales and cost of goods sold are shown on the federal income tax return. If there is no separate record of prescription drug sales, estimate it as accurately as possible. Sales of prescription drug items shall **NOT** include nonprescription OTC's, durable medical equipment, or other nonprescription items. One method to estimate sales of prescription drug items is to use your sales tax return. If Rx cost of goods sold is not readily available, leave that line blank.

Line (3) Since **floor space** will be used in allocating certain expenses, accuracy is important. When measuring the total store, include only the retail area and exclude any storage area, i.e., basement, attic, off-the-premises areas, or freight in-out areas. When measuring the Prescription Department, exclude patient waiting area and prescription-related office. These must be included in total store area. A factor is added to the Prescription Department area to account for both waiting and office space.

SECTION IIB --- OVERHEAD EXPENSES [TAX RETURN CAN BE SUBSTITUTED]

Overhead costs reported on the cost report must be resulting from arms-length transactions between non-related parties. Related parties include, but are not limited to, those related by family, by business or financial association, and by common ownership or control. **The most common non-arms-length transaction involves rental of property between related parties. The only allowable expense of such transactions for cost determination purposes would be the actual costs of ownership (depreciation, taxes, interest, etc., for the store area only). The rental amount will be disallowed. Show this as a reconciling item in Section IID.**

Line (6) & (7) Include only personal property taxes or real estate taxes paid on property used in this pharmacy's business.

Line (7a) Include the employer's share of FICA and Medicare taxes, and state and federal unemployment taxes.

Louisiana Medicaid Pharmacy Cost Report – Instructions

- Line (10)** Include only rent that applies to the store. **Report only rental expense incurred by transactions between non-related parties. See the first paragraph of this section for expenses allowed in lieu of rent paid to a related party.**
- Line (15)** Include only interest expenses unrelated to prescription drug purchases. Other interest shall be included as a reconciling item on lines (52) or (53).
- Line (16)** Include only legal expenses unrelated to litigation. Other legal expenses shall be included as a reconciling item on lines (52) or (53).
- Line (22)** Include office and operating supplies. If prescription containers and labels are included in your supplies, exclude them from this line and show them on line (26).
- Line (24)** **Rx Computer Expenses.** Include expenses for a computer that is used only in the Rx Department. These expenses shall not be duplicated on any other line. If your computer is used by other departments of the pharmacy, do not enter anything on this line and enter computer expenses on line (29).
- Line (25)** **Rx Delivery Expenses.** If you deliver Rx items only, include expenses paid for your delivery vehicle here, including expenses paid to a delivery service for delivery of Rx items. These expenses shall not be duplicated on any other line. If your delivery vehicle is used by other departments of the pharmacy or for miscellaneous purposes, do not enter anything on this line and enter delivery expenses on line (29).
- Line (26)** **Rx Containers and Labels.** The cost of prescription containers and labels shall be included here if separately identified as "other deductions" on your federal income tax return. If this expense is included in cost of goods sold on your federal income tax return and if your accounting records are such that this figure is difficult to determine, leave this line blank. An allowance will be made for Rx containers and labels.
- Lines (27)-(29)** On these lines identify any non-labor expenses not already included on your cost report but listed as other deductions on your federal income tax return or other accounting statement. **Identify each item and the amount, rather than labeling all such expenses as "miscellaneous."** If you wish, you can simply attach the schedule from your federal return which lists these expenses. Clearly label any items that are 100% Rx-related or that are 100% non-Rx-related.

SECTION IIC --- PERSONNEL COSTS [LINES (31)-(45)]

- Lines (31)-(38) "Percent of Prescriptions Dispensed."** Provide your best estimate of the percentage of prescriptions dispensed by each pharmacist. Notice: This column must total line 38a (100%).
- Lines (31)-(43) "Average Weekly Hours."** You may not have detailed records of where each employee worked; however, provide your best estimate of an average or "typical" week. Column 6 shall show average number of hours the employee worked per week. Column 7 shall show the average number of hours per week spent performing Rx-related duties. Rx-related duties are defined as time spent filling prescriptions as well as doing the related administrative work (e.g. third party reimbursement claims management), including ordering and stocking prescription ingredients, taking inventory, maintaining prescription files and delivering prescriptions. Pharmacists providing consultation to long-term care

Louisiana Medicaid Pharmacy Cost Report – Instructions

facilities must be identified and listed separately. Any revenue received for those consultation services shall be noted in Section IB, page 2.

Lines (31)-(33) “Owners.” For purposes of this study, an employee who is a stockholder in the pharmacy is considered an “Owner.” All individual proprietors, partners, or stockholders shall list their total drawings and/or salaries for the year. Do not show net profit as the owner’s salary but **only actual drawings or salary**. For those owners who took no salary or drawings, show zero to indicate you have not overlooked this line. A salary will be allocated based on time and/or prescriptions dispensed.

Lines (39)-(43) Rx Technicians, nonprofessional, clerical, and delivery personnel who perform Rx-related duties shall be listed.

Line (44) **“All Non-Rx Employees.”** List total salaries for all employees who spend no time in Rx-related duties.

SECTION IID --- RECONCILIATION WITH BOOKS OR FEDERAL INCOME TAX RETURN

The purpose of this reconciliation is to ensure that all expenses have been included and that none have been duplicated. For example, pharmacies operating as sole proprietors will normally need to list owner’s salaries, drawings, and benefits as a reconciling item. Other examples of reconciling items are the 50% meals deduction, rent paid to related party, etc.

SECTION III --- ADDITIONAL DATA

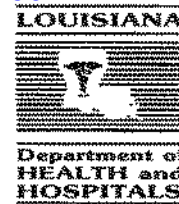
This section has been added at the request of representatives of the pharmacy industry in Louisiana. Please refer to the instructions within this section.

Exhibit 4
Letter from the
Louisiana Department of
Health and Hospitals
Regarding Pharmacy
Dispensing Cost Survey



Kathleen Babineaux Blanco
GOVERNOR

STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



Frederick P. Cerise, M.D., M.P.H.
SECRETARY

November 3, 2006

RE: 2006 Dispensing Cost Survey

Dear Medicaid Pharmacy Provider:

The Department of Health and Hospitals has contracted with the firm of Myers and Stauffer, Certified Public Accountants, to conduct a dispensing cost survey. This firm has extensive experience in performing pharmacy cost studies and analysis.

A statistically valid sample of Louisiana Medicaid pharmacy providers has been selected to participate in the survey process. If your pharmacy is selected, you are required to participate in the survey process. Should a provider fail to participate, the Bureau may terminate the provider from the program.

Act 801 of the 2006 Regular Session of the Legislature directed the Department to pursue submitting a state plan amendment to increase the dispensing fee for prescription drugs. The dispensing cost survey is required to provide data supporting the reasonableness of the dispensing fee increase.

To accomplish the amount of work which must be performed and to ensure an accurate and valid measurement of dispensing costs, all forms must be completed and returned to Myers and Stauffer by the deadline listed in the dispensing cost survey packet, **December 31, 2006**. To assist you in completing the survey, a toll-free number is included in the instructions to the survey form.

Your prompt and complete response is critical to the proper documentation of dispensing cost and your continued enrollment in the Medicaid Program. Thank you for your cooperation.

Sincerely,

Jerry Phillips
Medicaid Director

JP/mjt

Exhibit 5a
Initial Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Independent Pharmacies)

**Sample
(Independent
Pharmacies)**



November 3, 2006

«prov_no» / «random»

«prov_name»

ATTENTION: OWNER / MANAGER

«address»

«city», «state» «zip5»

Dear Pharmacy Owner or Manager:

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey. Your pharmacy has been selected and is required to participate in the survey according to the following directions:

1. Complete and return the enclosed "Louisiana Medicaid Pharmacy Cost Report." Review the survey instructions.
2. Retain a copy of the completed survey forms for your records.
3. For your convenience, we will complete a portion of the survey for you upon receipt of your business federal income tax return (Forms 1065, 1120, 1120S or Schedule C of Form 1040 and accompanying schedules). If you choose this option, you will still need to complete the following sections of the cost report prior to submission:
 - a. Pages 1 and 2 – Pharmacy attributes and other information
 - b. Page 3 – Line 1 (column 1) – prescription sales, and line 3 (columns 1 and 2) – prescription area and total store area.
 - c. Page 4 – Personnel costs – complete lines 31-45, all columns
4. If your financial statements or tax return have not been completed for your most recent fiscal year, file a cost report using your prior year's financial statements (or tax return) and the corresponding prescription data for that year. The data will be adjusted accordingly.

Louisiana Medicaid Pharmacy Cost of Dispensing Survey
November 3, 2006
Page 2 of 2

It is very important that all pharmacies cooperate fully by filing an accurate cost report. **The Louisiana Department of Health and Hospitals has designated participation in this survey as mandatory for all pharmacies selected to participate.** It is very important that all pharmacies cooperate fully by filing an accurate cost report. Pharmacies are encouraged to return the requested information as soon as possible, but forms must be returned **no later than December 31, 2006.**

Send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

Return the survey using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer.

All cost reports will be reviewed by experienced staff at Myers and Stauffer LC. If this review yields any need for additional inquiries, you will be contacted by letter or telephone. If you have any questions, call toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen", with a stylized, flowing script.

T. Allan Hansen
Project Manager

Exhibit 5b
Initial Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Chain Pharmacies)

**Sample
(Chain Pharmacies)**



November 3, 2006

«Chain_Name»
«Corporate_Contact_Person», «Title»
«Address_1»
«City», «State» «Zip»

To: Louisiana Chain Pharmacy Providers

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey. Your pharmacy has been selected and is required to participate in the survey according to the following directions:

1. Enclosed is a listing of the names and addresses of your Louisiana pharmacies that have been randomly selected to participate in the survey. Pharmacy information is presented as shown on the Louisiana Department of Health and Hospital records. If this list is inaccurate, notify Myers and Stauffer.
2. Enclosed are several copies of the "Louisiana Medicaid Pharmacy Cost Report." Review the survey instructions. Submit a completed survey **for each store** on the attached list. If you will require additional survey forms, contact Myers and Stauffer.
3. If you would prefer to submit the data in an electronic format, contact Myers and Stauffer to determine an acceptable format. On request, Myers and Stauffer can provide an Excel spreadsheet template of the survey forms to facilitate electronic survey submission (please e-mail Cheryl Richter at crichter@mslc.com).
4. Retain a copy of the completed survey forms for your records.
5. Describe any cost allocations used in preparing the income statement (e.g., central administrative expense, etc.). Warehousing expense must be separately identified and entered on lines 27, 28 and/or 29.

It is very important that all pharmacies cooperate fully by filing an accurate cost report. **The Louisiana Department of Health and Hospitals has designated participation in this survey as mandatory for all pharmacies selected to participate.** It is very important that all pharmacies cooperate fully by filing an accurate cost report. Pharmacies are encouraged to return the requested information as soon as possible, but forms must be returned **no later than December 31, 2006.**

Louisiana Medicaid Pharmacy Cost of Dispensing Survey
November 3, 2006
Page 2 of 2

Send completed forms to:

Myers and Stauffer LC
Certified Public Accountants
11440 Tomahawk Creek Parkway
Leawood, Kansas 66211

Return the surveys using the enclosed Business Reply Label with any envelope. Postage will be paid by Myers and Stauffer (e-mail electronic submissions of survey data to Cheryl Richter at crichter@mslc.com).

All survey data will be reviewed by experienced staff at Myers and Stauffer LC. If this review yields any need for additional inquiries, you will be contacted by letter or telephone. If you have any questions, contact Cheryl Richter toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 6a
Second Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Independent Pharmacies)

**Sample
(Independent
Pharmacies)**



December 4, 2006

«prov_no» / «random»

«prov_name»

ATTENTION: OWNER / MANAGER

«address»

«city», «state» «zip5»

Re: Reminder of Pharmacy Cost of Dispensing Survey

Dear Pharmacy Owner or Manager:

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey. Your pharmacy has been selected and is required to participate in the survey.

In the last month, you should have received copies of the dispensing cost survey form and instructions. Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Health and Hospitals. You are encouraged to submit a completed survey as soon as possible, but no later than December 31, 2006.

If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "T. Allan Hansen". The signature is fluid and cursive, with a long horizontal stroke at the end.

T. Allan Hansen
Project Manager

Exhibit 6b
Second Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Chain Pharmacies)

**Sample
(Chain Pharmacies)**



December 4, 2006

«Chain_Name»
«Corporate_Contact_Person», «Title»
«Address_1»
«City», «State» «Zip»

Re: Reminder of Pharmacy Cost of Dispensing Survey

To: Louisiana Chain Pharmacy Providers

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey.

In the last month, you should have received copies of the dispensing cost survey form and instructions. Included in the packet of survey information was a listing of the names and addresses of your Louisiana pharmacies that were randomly selected to participate in the survey. Your prompt response to the survey is very important to meeting the survey schedule set by the Department of Health and Hospitals. You are encouraged to submit a completed survey as soon as possible, but no later than December 31, 2006.

As a reminder, an Excel spreadsheet template of the survey forms to facilitate electronic survey submission is available on request (please e-mail Cheryl Richter at crichter@mslc.com).

If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads 'T. Allan Hansen'.

T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 7a
Third Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Independent Pharmacies)

**Sample
(Independent
Pharmacies)**



January 9, 2007

«prov_no» / «random»

«prov_name»

ATTENTION: OWNER / MANAGER

«address»

«city», «state» «zip5»

Re: URGENT REQUEST FOR PARTICIPATION IN THE PHARMACY COST STUDY

Dear Pharmacy Owner or Manager:

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey. Your pharmacy has been selected and is required to participate in the survey.

In November 2006, you should have received copies of the dispensing cost survey form and instructions. According to our records, a completed survey has not been received from your pharmacy.

Your participation in the dispensing cost survey is very important. This survey is being used by the Department of Health and Hospitals to develop future reimbursement rates. Additionally, the Department of Health and Hospitals has indicated that participation in the survey is mandatory. Failure to participate may jeopardize your pharmacy's status as a Medicaid provider.

In order to allow more pharmacies time to respond to the dispensing cost survey, the Department of Health and Hospitals has instructed Myers and Stauffer to accept surveys through January 16, 2007.

If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858. If you wish to fax your completed survey, please send to (913) 234-1104. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Allan Hansen', is written over a horizontal line.

T. Allan Hansen
Project Manager

Exhibit 7b
Third Letter from
Myers and Stauffer for
Dispensing Cost Survey
(Chain Pharmacies)

**Sample
(Chain Pharmacies)**



January 9, 2007

«Chain_Name»
«Corporate_Contact_Person», «Title»
«Address_1»
«City», «State» «Zip»

Re: URGENT REQUEST FOR PARTICIPATION IN THE PHARMACY COST STUDY

To: Louisiana Chain Pharmacy Providers

The Louisiana Department of Health and Hospitals has contracted with Myers and Stauffer LC to conduct a pharmacy dispensing cost survey as part of the process to evaluate Medicaid fees for prescription medications in the state of Louisiana. A random sample of pharmacy providers has been selected to participate in the survey.

In November 2006, you should have received copies of the dispensing cost survey form and instructions. According to our records, a completed survey has not been received for your pharmacies.

Your participation in the dispensing cost survey is very important. This survey is being used by the Department of Health and Hospitals to develop future reimbursement rates. Additionally, the Department of Health and Hospitals has indicated that participation in the survey is mandatory. Failure to participate may jeopardize your pharmacies' status as Medicaid providers.

In order to allow more pharmacies time to respond to the dispensing cost survey, the Department of Health and Hospitals has instructed Myers and Stauffer to accept surveys through January 16, 2007.

As a reminder, an Excel spreadsheet template of the survey forms to facilitate electronic survey submission is available on request (please e-mail myself or Cheryl Richter at crichter@mslc.com).

If you have not received a survey form or if you have any questions, please call toll free at 1-800-374-6858. Your cooperation in providing the information for this study is greatly appreciated.

Sincerely,

A handwritten signature in cursive script, reading 'T. Allan Hansen'.

T. Allan Hansen
Project Manager
Phone: (913) 234-1038
E-mail: ahansen@mslc.com

Exhibit 8

Response Rate by Parish and Region

Response Rate by Parish and Region
Louisiana Department of Health and Hospitals

Parish	DHH Region Code	Total Number of Louisiana Medicaid Pharmacies (In- State)	Eligible Pharmacies	Sampled Pharmacies	Exempt Pharmacies	Usable Surveys Received	Response Rate (Excludes Exempt)
JEFFERSON	1	106	98	50	0	34	68.0%
ORLEANS	1	47	36	22	1	16	76.2%
PLAQUEMINES	1	2	1	1	0	1	100.0%
ST. BERNARD	1	6	5	3	2	1	100.0%
ASCENSION	2	22	21	16	1	10	66.7%
E. BATON ROUGE	2	95	90	49	0	32	65.3%
EAST FELICIANA	2	4	4	2	0	1	50.0%
IBERVILLE	2	10	10	2	0	1	50.0%
POINTE COUPEE	2	6	6	1	0	1	100.0%
W. BATON ROUGE	2	5	5	3	0	3	100.0%
WEST FELICIANA	2	2	2	1	0	1	100.0%
ASSUMPTION	3	3	2	2	0	2	100.0%
LAFOURCHE	3	22	20	10	0	9	90.0%
ST. CHARLES	3	10	9	6	0	1	16.7%
ST. JAMES	3	5	5	2	0	1	50.0%
ST. JOHN BAPTIST	3	7	7	2	0	2	100.0%
ST. MARY	3	17	15	10	0	8	80.0%
TERREBONNE	3	26	25	12	0	8	66.7%
ACADIA	4	19	17	9	0	7	77.8%
EVANGELINE	4	19	19	12	0	10	83.3%
IBERIA	4	22	22	14	1	11	84.6%
LAFAYETTE	4	58	54	24	1	14	60.9%
ST. LANDRY	4	29	29	20	0	16	80.0%
ST. MARTIN	4	14	14	8	0	7	87.5%
VERMILION	4	17	17	10	0	8	80.0%
ALLEN	5	8	8	6	0	5	83.3%
BEAUREGARD	5	4	4	4	0	4	100.0%
CALCASIEU	5	49	45	24	0	22	91.7%
CAMERON	5	0	0	0	0	0	N/A
JEFFERSON DAVIS	5	14	14	10	2	6	75.0%
AVOUELLES	6	17	17	9	0	9	100.0%
CATAHOULA	6	7	6	3	0	2	66.7%
CONCORDIA	6	6	6	2	0	2	100.0%
GRANT	6	2	2	1	0	1	100.0%
LA SALLE	6	7	6	3	0	2	66.7%
RAPIDES	6	34	34	18	2	8	50.0%
VERNON	6	5	5	3	0	3	100.0%
WINN	6	7	7	4	0	3	75.0%
BIENVILLE	7	4	4	4	0	3	75.0%
BOSSIER	7	18	16	9	0	5	55.6%
CADDO	7	57	55	35	0	19	54.3%
CLAIBORNE	7	6	6	2	0	2	100.0%
DE SOTO	7	5	5	2	0	1	50.0%
NATCHITOCHES	7	9	9	5	0	3	60.0%
RED RIVER	7	2	2	1	0	1	100.0%
SABINE	7	5	5	3	0	1	33.3%
WEBSTER	7	9	9	6	0	4	66.7%
CALDWELL	8	2	2	2	0	2	100.0%
EAST CARROLL	8	3	3	2	0	2	100.0%
FRANKLIN	8	4	4	1	0	1	100.0%

Response Rate by Parish and Region
Louisiana Department of Health and Hospitals

Parish	DHH Region Code	Total Number of Louisiana Medicaid Pharmacies (In- State)	Eligible Pharmacies	Sampled Pharmacies	Exempt Pharmacies	Usable Surveys Received	Response Rate (Excludes Exempt)
JACKSON	8	4	4	2	0	2	100.0%
LINCOLN	8	10	10	5	0	4	80.0%
MADISON	8	3	3	3	0	3	100.0%
MOREHOUSE	8	10	10	5	0	5	100.0%
OUACHITA	8	54	50	30	1	19	65.5%
RICHLAND	8	9	9	7	0	6	85.7%
TENSAS	8	2	2	1	0	1	100.0%
UNION	8	6	6	4	0	3	75.0%
WEST CARROLL	8	4	4	2	0	2	100.0%
LIVINGSTON	9	15	15	9	0	7	77.8%
ST. HELENA	9	3	3	2	0	2	100.0%
ST. TAMMANY	9	45	42	18	0	12	66.7%
TANGIPAHOA	9	21	21	7	0	7	100.0%
WASHINGTON	9	15	15	5	0	1	20.0%
Totals		1,058	1,001	550	11	390	72.4%

Summary by Region

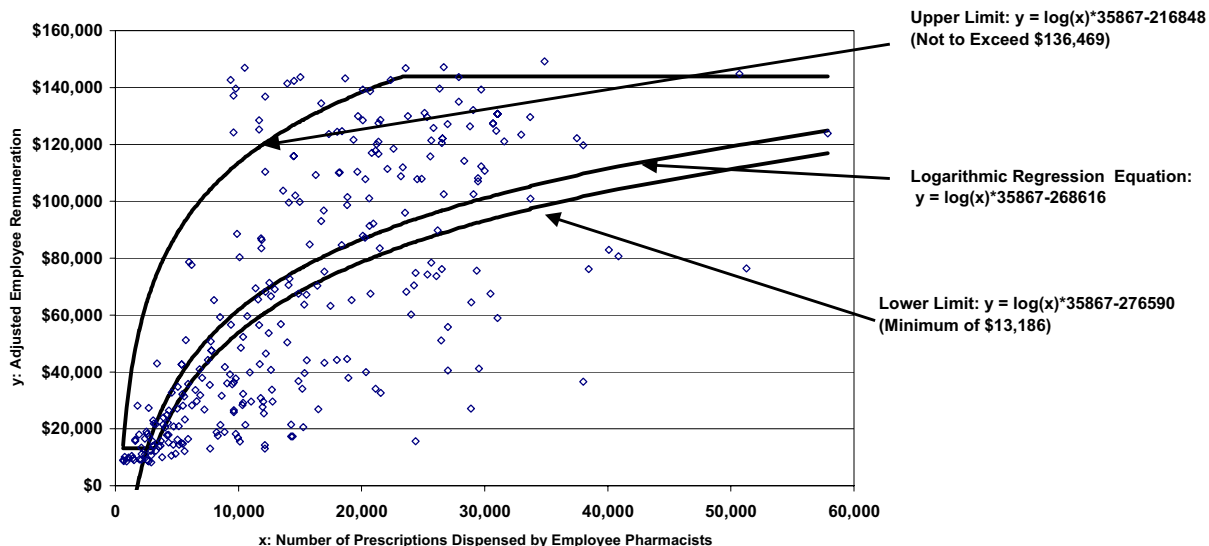
DHH Region	DHH Region Code	Total Number of Louisiana Medicaid Pharmacies (In- State)	Eligible Pharmacies	Sampled Pharmacies	Exempt Pharmacies	Usable Surveys Received	Response Rate (Excludes Exempt)
New Orleans	1	161	140	76	3	52	71.2%
Baton Rouge	2	144	138	74	1	49	67.1%
Thibodaux	3	90	83	44	0	31	70.5%
Lafayette	4	178	172	97	2	73	76.8%
Lake Charles	5	75	71	44	2	37	88.1%
Alexandria	6	85	83	43	2	30	73.2%
Shreveport	7	115	111	67	0	39	58.2%
Monroe	8	111	107	64	1	50	79.4%
Mandeville	9	99	96	41	0	29	70.7%
Totals		1,058	1,001	550	11	390	72.4%

Exhibit 9
Construction and Application
of Owner Pharmacist Salary Limits

Construction and Application of Owner Pharmacist Salary Limits

Louisiana Department of Health and Hospitals

Construction of Owner Pharmacist Salary Limits Based on Employee Pharmacist Salaries



Application of Owner Pharmacist Salary Limits

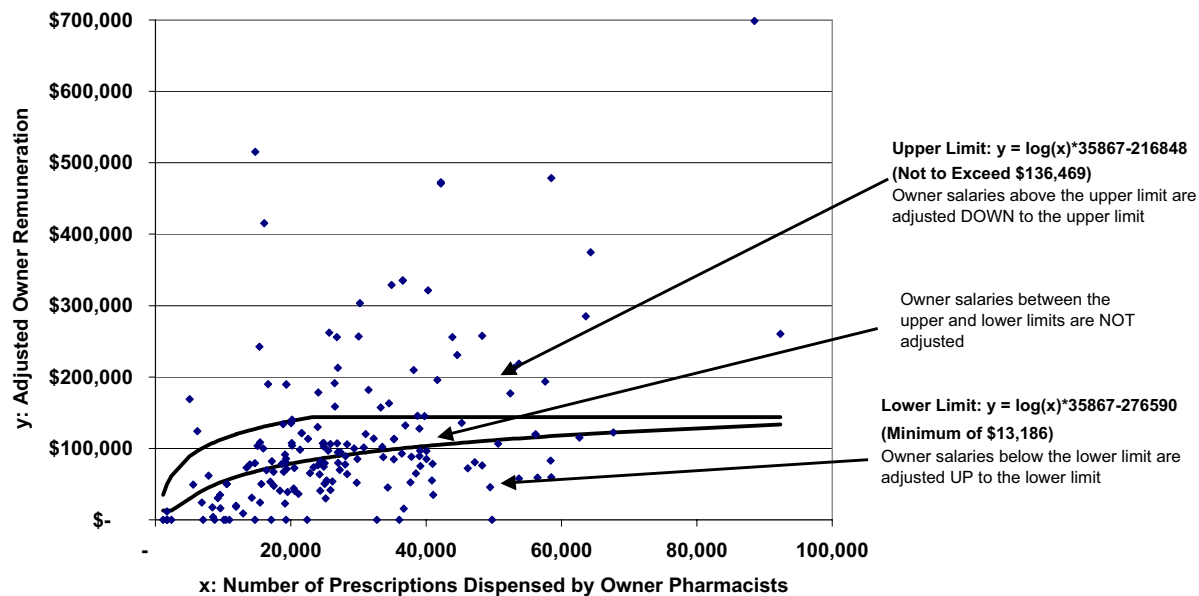


Exhibit 10
Table of Inflation Factors
for Dispensing Cost Survey

Table of Inflation Factors for Dispensing Cost Survey
Louisiana Department of Health and Hospitals

Fiscal Year End Date	Midpoint Date	Midpoint Index₁	Terminal Month Index (June 30, 2006)₁	Inflation Factor	Number of Stores with Year End Date
12/31/2003	6/30/2003	183.7	202.9	1.105	1
1/31/2004	7/31/2003	183.9	202.9	1.103	0
2/29/2004	8/31/2003	184.6	202.9	1.099	0
3/31/2004	9/30/2003	185.2	202.9	1.096	0
4/30/2004	10/31/2003	185.0	202.9	1.097	0
5/31/2004	11/30/2003	184.5	202.9	1.100	0
6/30/2004	12/31/2003	184.3	202.9	1.101	0
7/31/2004	1/31/2004	185.2	202.9	1.096	0
8/31/2004	2/29/2004	186.2	202.9	1.090	0
9/30/2004	3/31/2004	187.4	202.9	1.083	0
10/31/2004	4/30/2004	188.0	202.9	1.079	0
11/30/2004	5/31/2004	189.1	202.9	1.073	0
12/31/2004	6/30/2004	189.7	202.9	1.070	3
1/31/2005	7/31/2004	189.4	202.9	1.071	8
2/28/2005	8/31/2004	189.5	202.9	1.071	0
3/31/2005	9/30/2004	189.9	202.9	1.068	0
4/30/2005	10/31/2004	190.9	202.9	1.063	0
5/31/2005	11/30/2004	191.0	202.9	1.062	0
6/30/2005	12/31/2004	190.3	202.9	1.066	2
7/31/2005	1/31/2005	190.7	202.9	1.064	1
8/31/2005	2/28/2005	191.8	202.9	1.058	1
9/30/2005	3/31/2005	193.3	202.9	1.050	2
10/31/2005	4/30/2005	194.6	202.9	1.043	3
11/30/2005	5/31/2005	194.4	202.9	1.044	0
12/31/2005	6/30/2005	194.5	202.9	1.043	275
1/31/2006	7/31/2005	195.4	202.9	1.038	62
2/28/2006	8/31/2005	196.4	202.9	1.033	0
3/31/2006	9/30/2005	198.8	202.9	1.021	3
4/30/2006	10/31/2005	199.2	202.9	1.019	2
5/31/2006	11/30/2005	197.6	202.9	1.027	2
6/30/2006	12/31/2005	196.8	202.9	1.031	13
7/31/2006	1/31/2006	198.3	202.9	1.023	4
8/31/2006	2/28/2006	198.7	202.9	1.021	3
9/30/2006	3/31/2006	199.8	202.9	1.016	2
10/31/2006	4/30/2006	201.5	202.9	1.007	1
11/30/2006	5/31/2006	202.5	202.9	1.002	0
12/31/2006	6/30/2006	202.9	202.9	1.000	2

Total Number of Stores	390
------------------------	-----

¹ Midpoint and terminal month indices were obtained from the Consumer Price Index, All Urban, as published by the Bureau of Labor Statistics (BLS).

Exhibit 11
Histogram of
Pharmacy Dispensing Cost

Histogram of Pharmacy Dispensing Cost

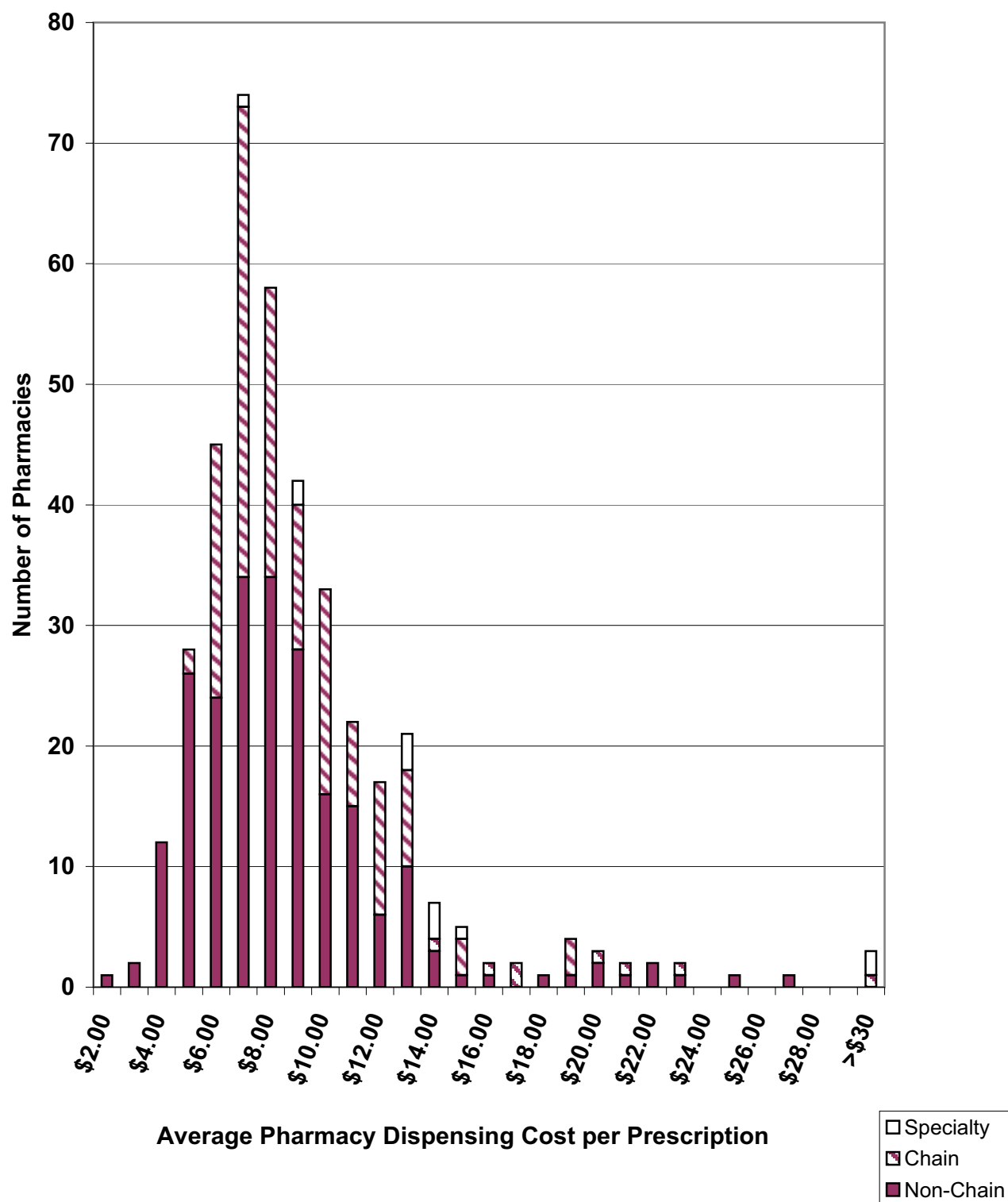


Exhibit 12
Pharmacy Dispensing
Cost Survey Data –
Statistical Summary

**Pharmacy Dispensing Cost Survey
Statistical Summary**
Louisiana Department of Health and Hospitals

Characteristic	n: Number of Pharmacies	Measurements of Central Tendency				Other Statistics			
		Means		Medians		Standard Deviation	95% Confidence Interval for Mean (based on Student t)		Percentile Ranges
		Mean	Weighted by Total Rx by Medication Rx Volume	Weighted by Total Rx by Medication Rx Volume	Weighted by Total Rx by Medication Rx Volume		Lower Bound	Upper Bound	
All Pharmacies in Sample	390	\$9.63	\$8.53	\$8.72	\$8.52	\$7.86	\$9.20	\$10.06	\$6.74 \$11.69
Non Specialty Pharmacies	378	\$9.40	\$8.24	\$8.32	\$8.43	\$7.81	\$9.01	\$9.78	\$6.71 \$11.42
Specialty Pharmacies	12	\$16.91	\$13.37	\$13.96	\$13.89	\$13.78	\$10.31	\$23.52	\$9.53 \$14.94
<u>Non Specialty Pharmacies Only</u>									
Chain Pharmacies ⁽¹⁾	155	\$9.85	\$8.34	\$8.42	\$8.67	\$7.75	\$9.26	\$10.44	\$7.17 \$12.12
Non-Chain Pharmacies ⁽¹⁾	223	\$9.08	\$8.12	\$8.24	\$8.16	\$7.90	\$8.57	\$9.59	\$6.04 \$11.16
Long-Term Care Institutional Pharmacies ⁽²⁾	7	\$11.84	\$8.52	\$8.82	\$7.87	\$7.12	\$4.91	\$18.78	\$6.08 \$17.09
Provision of Unit Dose Dispensing Services	128	\$8.80	\$8.18	\$8.40	\$7.92	\$7.90	\$8.17	\$9.43	\$6.06 \$10.72
Location:									
Urban	248	\$9.84	\$8.39	\$8.51	\$8.72	\$7.83	\$9.32	\$10.35	\$7.01 \$12.13
Rural	130	\$8.56	\$7.85	\$7.98	\$7.90	\$7.78	\$8.03	\$9.10	\$6.30 \$10.49
Annual Rx Volume:									
0 to 14,999	20	\$17.14	\$16.99	\$15.59	\$14.40	\$12.10	\$14.00	\$20.28	\$10.39 \$23.28
15,000 to 29,999	75	\$11.14	\$11.05	\$10.72	\$10.00	\$9.59	\$10.17	\$12.10	\$7.34 \$13.80
30,000 to 49,999	99	\$9.35	\$9.22	\$8.93	\$8.72	\$8.56	\$8.77	\$9.93	\$7.08 \$11.76
50,000 to 74,999	94	\$8.43	\$8.42	\$8.39	\$8.32	\$8.17	\$7.98	\$8.88	\$6.28 \$10.25
75,000 and Higher	90	\$7.29	\$7.21	\$7.19	\$7.28	\$7.15	\$6.99	\$7.60	\$6.24 \$8.10
Annual Medicaid Rx Volume: ⁽³⁾									
0 to 2,999	66	\$12.72	\$10.96	\$12.35	\$12.40	\$11.83	\$11.48	\$13.95	\$8.17 \$16.23
3,000 to 5,999	72	\$10.00	\$9.05	\$9.79	\$9.39	\$9.10	\$9.03	\$10.98	\$7.20 \$11.70
6,000 to 9,999	94	\$8.67	\$8.17	\$8.59	\$8.08	\$7.91	\$8.03	\$9.30	\$6.01 \$10.83
10,000 to 14,999	71	\$8.64	\$8.20	\$8.69	\$8.11	\$8.11	\$8.04	\$9.23	\$6.80 \$10.14
15,000 and Higher	75	\$7.54	\$7.33	\$7.45	\$7.24	\$7.24	\$7.13	\$7.94	\$6.20 \$8.32
Medicaid Utilization Ratio: ⁽³⁾									
0.0% to 10.0%	98	\$9.94	\$8.45	\$8.33	\$9.20	\$7.55	\$9.15	\$10.72	\$6.72 \$12.72
10.0% to 15.0%	61	\$8.93	\$7.96	\$7.97	\$8.01	\$7.65	\$8.00	\$9.86	\$6.59 \$10.23
15.0% to 20.0%	91	\$8.75	\$8.10	\$8.12	\$7.92	\$7.73	\$8.15	\$9.36	\$6.70 \$10.68
20.0% to 25.0%	48	\$9.18	\$8.07	\$8.08	\$8.04	\$7.65	\$8.03	\$10.32	\$6.15 \$11.11
25.0% and Higher	80	\$9.96	\$8.55	\$8.78	\$8.59	\$8.09	\$8.94	\$10.97	\$6.72 \$11.50

Notes:

All pharmacy dispensing costs are inflated by the CPI(U) to the common point of 6/30/2006.

(1) For purposes of this exhibit a "chain" pharmacy must have more than 15 pharmacies under common ownership enrolled in Louisiana Medicaid.

(2) For purposes of this exhibit a "long-term care institutional pharmacy" is one which dispensed 75% or more of prescriptions reimbursed by Louisiana Medicaid to recipients of a long-term care facility (based on Medicaid claims data for the time period of January 1, 2006 to June 30, 2006).

(3) Based on annualized Medicaid claims data for the time period of January 1, 2006 to June 30, 2006.

Exhibit 13
Table of Zip Codes, Parishes
and Urban Versus Rural
Designations

Table of Zip Codes, Parishes and Urban Versus Rural Designations
Louisiana Department of Health and Hospitals

Zip Code	Parish	Urban Versus Rural Indicator	Zip Code	Parish	Urban Versus Rural Indicator
70001	JEFFERSON	U	70364	TERREBONNE	U
70002	JEFFERSON	U	70373	LAFOURCHE	U
70003	JEFFERSON	U	70374	LAFOURCHE	U
70005	JEFFERSON	U	70375	LAFOURCHE	U
70006	JEFFERSON	U	70380	ST. MARY	R
70037	PLAQUEMINES	U	70381	ST. MARY	R
70039	ST. CHARLES	U	70390	ASSUMPTION	R
70043	ST. BERNARD	U	70391	ASSUMPTION	R
70047	ST. CHARLES	U	70394	LAFOURCHE	U
70052	ST. JAMES	U	70401	TANGIPAHOA	R
70053	JEFFERSON	U	70403	TANGIPAHOA	U
70056	JEFFERSON	U	70404	TANGIPAHOA	R
70058	JEFFERSON	U	70420	ST. TAMMANY	U
70062	JEFFERSON	U	70422	TANGIPAHOA	R
70065	JEFFERSON	U	70427	WASHINGTON	R
70067	JEFFERSON	U	70433	ST. TAMMANY	U
70068	ST. JOHN BAPTIST	U	70434	ST. TAMMANY	U
70069	ST. JOHN BAPTIST	U	70435	ST. TAMMANY	U
70070	ST. CHARLES	U	70438	WASHINGTON	R
70071	ST. JAMES	U	70441	ST. HELENA	R
70072	JEFFERSON	U	70443	ST. HELENA	R
70083	PLAQUEMINES	U	70444	TANGIPAHOA	R
70084	ST. JOHN BAPTIST	U	70445	ST. TAMMANY	U
70085	ST. BERNARD	U	70447	ST. TAMMANY	U
70087	ST. CHARLES	U	70448	ST. TAMMANY	U
70090	ST. JAMES	U	70452	ST. TAMMANY	U
70094	JEFFERSON	U	70454	TANGIPAHOA	R
70112	ORLEANS	U	70455	TANGIPAHOA	R
70114	ORLEANS	U	70456	TANGIPAHOA	R
70115	ORLEANS	U	70458	ST. TAMMANY	U
70116	ORLEANS	U	70460	ST. TAMMANY	U
70117	ORLEANS	U	70461	ST. TAMMANY	U
70118	ORLEANS	U	70462	LIVINGSTON	U
70119	ORLEANS	U	70471	ST. TAMMANY	U
70121	JEFFERSON	U	70501	LAFAYETTE	U
70122	ORLEANS	U	70503	LAFAYETTE	U
70123	JEFFERSON	U	70506	LAFAYETTE	U
70124	ORLEANS	U	70507	LAFAYETTE	U
70125	ORLEANS	U	70508	LAFAYETTE	U
70127	ORLEANS	U	70510	VERMILION	R
70129	ORLEANS	U	70512	ST. LANDRY	U
70130	ORLEANS	U	70514	ST. MARY	R
70131	ORLEANS	U	70515	EVANGELINE	R
70301	LAFOURCHE	U	70517	ST. MARTIN	U
70302	LAFOURCHE	U	70518	LAFAYETTE	U
70339	ASSUMPTION	R	70520	LAFAYETTE	U
70344	TERREBONNE	U	70521	ST. MARTIN	U
70345	LAFOURCHE	U	70523	ST. MARY	R
70346	ASCENSION	U	70525	ACADIA	U
70354	LAFOURCHE	U	70526	ACADIA	U
70357	LAFOURCHE	U	70529	LAFAYETTE	U
70359	TERREBONNE	U	70532	JEFFERSON DAVIS	R
70360	TERREBONNE	U	70533	VERMILION	R
70361	TERREBONNE	U	70535	ST. LANDRY	U
70363	TERREBONNE	U	70538	ST. MARY	R

Table of Zip Codes, Parishes and Urban Versus Rural Designations
Louisiana Department of Health and Hospitals

Zip Code	Parish	Urban Versus Rural Indicator	Zip Code	Parish	Urban Versus Rural Indicator
70542	VERMILION	R	70775	WEST FELICIANA	R
70543	ACADIA	U	70776	IBERVILLE	R
70544	IBERIA	R	70785	LIVINGSTON	U
70546	JEFFERSON DAVIS	R	70786	LIVINGSTON	U
70548	VERMILION	R	70788	IBERVILLE	R
70549	JEFFERSON DAVIS	R	70791	E. BATON ROUGE	U
70552	IBERIA	R	70805	E. BATON ROUGE	U
70554	EVANGELINE	R	70806	E. BATON ROUGE	U
70555	VERMILION	R	70807	E. BATON ROUGE	U
70560	IBERIA	R	70808	E. BATON ROUGE	U
70563	IBERIA	R	70809	E. BATON ROUGE	U
70569	IBERIA	R	70810	E. BATON ROUGE	U
70570	ST. LANDRY	U	70811	E. BATON ROUGE	U
70576	EVANGELINE	R	70814	E. BATON ROUGE	U
70577	ST. LANDRY	U	70815	E. BATON ROUGE	U
70578	ACADIA	U	70816	EAST FELICIANA	U
70582	ST. MARTIN	U	70817	E. BATON ROUGE	U
70583	LAFAYETTE	U	70818	E. BATON ROUGE	U
70584	ST. LANDRY	U	70819	E. BATON ROUGE	U
70586	EVANGELINE	R	70826	E. BATON ROUGE	U
70589	ST. LANDRY	U	71001	BIENVILLE	R
70591	JEFFERSON DAVIS	R	71006	BOSSIER	U
70592	LAFAYETTE	U	71019	RED RIVER	R
70601	CALCASIEU	U	71037	BOSSIER	U
70605	CALCASIEU	U	71038	CLAIBORNE	R
70607	CALCASIEU	U	71040	CLAIBORNE	R
70611	CALCASIEU	U	71049	DE SOTO	R
70633	CALCASIEU	U	71052	DE SOTO	R
70634	BEAUREGARD	R	71055	WEBSTER	U
70647	CALCASIEU	U	71064	BOSSIER	U
70648	ALLEN	R	71068	BIENVILLE	R
70655	ALLEN	R	71075	WEBSTER	U
70659	LINCOLN	R	71082	CADDO	U
70663	CALCASIEU	U	71101	CADDO	U
70668	CALCASIEU	U	71103	CADDO	U
70669	CALCASIEU	U	71104	CADDO	U
70706	LIVINGSTON	U	71105	CADDO	U
70711	LIVINGSTON	U	71106	CADDO	U
70714	E. BATON ROUGE	U	71107	CADDO	U
70719	W. BATON ROUGE	U	71108	CADDO	U
70722	EAST FELICIANA	R	71109	CADDO	U
70726	LIVINGSTON	U	71111	BOSSIER	U
70734	ASCENSION	U	71112	BOSSIER	U
70737	ASCENSION	U	71118	CADDO	U
70739	E. BATON ROUGE	U	71119	CADDO	U
70740	IBERVILLE	R	71129	CADDO	U
70748	EAST FELICIANA	R	71166	CADDO	U
70754	LIVINGSTON	U	71201	OUACHITA	U
70755	POINTE COUPEE	R	71202	OUACHITA	U
70757	IBERVILLE	R	71203	OUACHITA	U
70760	POINTE COUPEE	R	71220	MOREHOUSE	R
70764	IBERVILLE	R	71222	UNION	R
70767	W. BATON ROUGE	U	71225	OUACHITA	U
70769	ASCENSION	U	71232	RICHLAND	R
70774	ASCENSION	U	71241	UNION	R

Table of Zip Codes, Parishes and Urban Versus Rural Designations
Louisiana Department of Health and Hospitals

Zip Code	Parish	Urban Versus Rural Indicator
71251	JACKSON	R
71254	EAST CARROLL	R
71259	RICHLAND	R
71260	UNION	R
71261	MOREHOUSE	R
71263	WEST CARROLL	R
71269	RICHLAND	R
71270	OUACHITA	U
71280	OUACHITA	U
71282	MADISON	R
71291	OUACHITA	U
71292	OUACHITA	U
71294	OUACHITA	U
71295	ORLEANS	U
71301	RAPIDES	U
71303	RAPIDES	U
71322	AVOYELLES	R
71327	AVOYELLES	R
71334	CONCORDIA	R
71336	FRANKLIN	R
71340	CATAHOULA	R
71341	AVOYELLES	R
71342	LA SALLE	R
71343	CATAHOULA	R
71346	RAPIDES	U
71350	AVOYELLES	R
71351	AVOYELLES	R
71353	ST. LANDRY	U
71355	AVOYELLES	R
71357	TENSAS	R
71360	RAPIDES	U
71362	AVOYELLES	R
71366	TENSAS	R
71368	CATAHOULA	R
71369	AVOYELLES	R
71373	CONCORDIA	R
71404	WINN	R
71405	RAPIDES	R
71409	RAPIDES	U
71417	GRANT	R
71418	CALDWELL	R
71446	VERNON	R
71449	SABINE	R
71454	GRANT	R
71457	NATCHITOCHES	R
71463	ALLEN	R
71465	LA SALLE	R
71477	RAPIDES	U
71480	LA SALLE	R
71483	WINN	R
71485	RAPIDES	U
71486	SABINE	R
71496	VERNON	R
75060	IBERIA	R

Exhibit 14

Dispensing Cost by Region

Dispensing Cost by Region

Louisiana Department of Health and Hospitals

			Cost per Prescription					
			Raw Mean			Mean Weighted by Medicaid Rx Volume		
DHH Region	DHH Region Code	Number of Pharmacies	Overhead	Labor	Total	Overhead	Labor	Total
New Orleans	1	50	3.18	8.12	11.30	2.53	6.15	8.68
Baton Rouge	2	48	2.91	6.40	9.31	2.64	5.87	8.51
Thibodaux	3	31	2.77	6.57	9.34	2.56	6.06	8.61
Lafayette	4	72	2.78	6.63	9.41	2.68	5.94	8.63
Lake Charles	5	35	2.53	6.63	9.16	2.02	5.71	7.74
Alexandria	6	30	2.43	6.21	8.64	2.39	6.30	8.69
Shreveport	7	34	2.60	6.53	9.13	2.39	5.67	8.06
Monroe	8	50	2.90	6.27	9.17	2.56	5.60	8.17
Mandeville	9	28	2.07	5.96	8.03	1.97	5.54	7.51
All Regions		378	2.74	6.65	9.40	2.46	5.86	8.32

Notes:

All pharmacy dispensing costs are inflated by the CPI(U) to the common point of 6/30/2006.

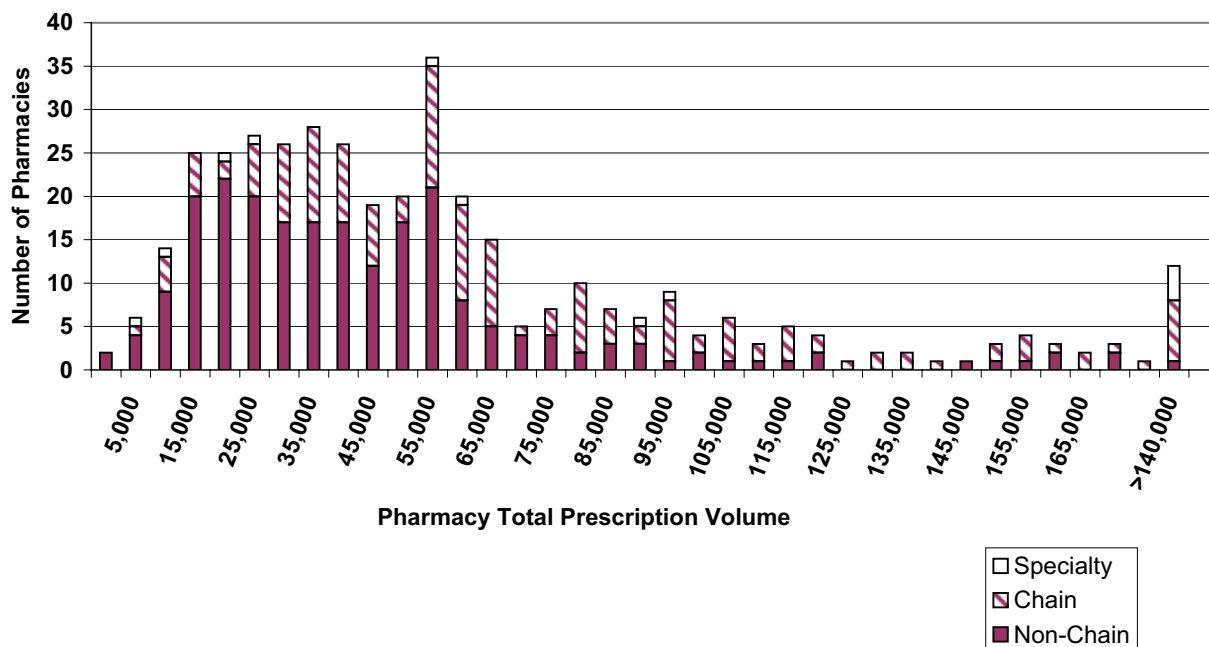
Excludes 12 specialty pharmacies, which for purposes of this report are those pharmacies where intravenous, infusion or other specialty products constituted at least 10% of prescription sales.

Exhibit 15
Charts Relating to Pharmacy Total
Prescription Volume:

A: Histogram of Pharmacy Total
Prescription Volume

B: Scatter-Plot of Relationship Between
Dispensing Cost per Prescription and
Total Prescription Volume

Histogram of Pharmacy Total Prescription Volume



Scatter-Plot of Relationship Between Dispensing Cost per Prescription and Total Prescription Volume

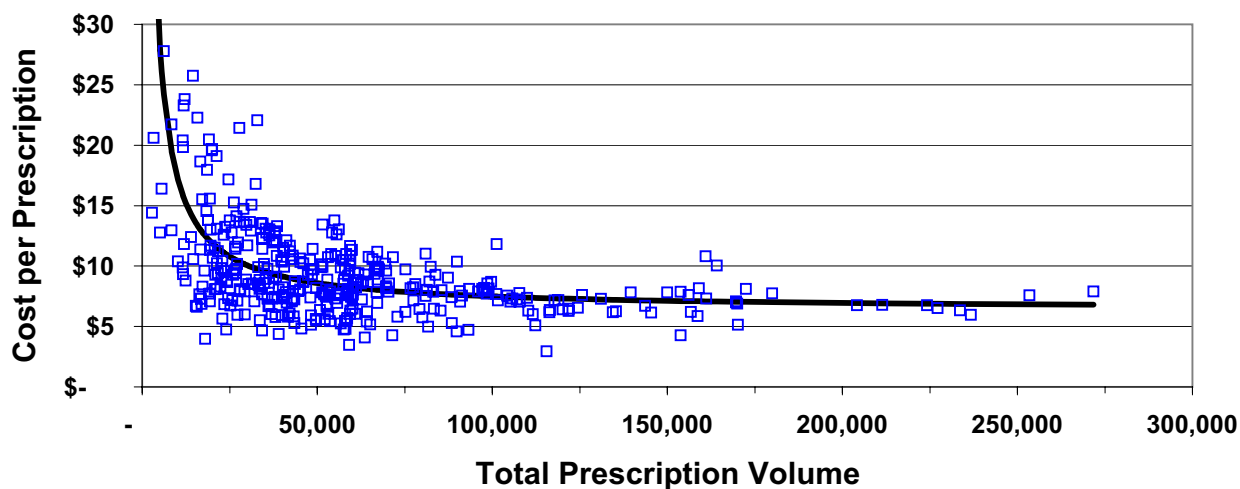


Exhibit 16

Summary of Pharmacy Attributes

Summary of Pharmacy Attributes

Louisiana Department of Health and Hospitals

Attribute	Number of Pharmacies Responding	
	Average for Responding Pharmacies	
Type of ownership	389	Individual: 26 (6.7%) Corporation: 341 (87.7%) Partnership: 9 (2.4%) Other: 13 (3.3%)
Location	389	Medical office building: 30 (7.7%) Shopping center: 60 (15.4%) Separate or downtown: 192 (49.4%) Grocery store / mass merchant: 88 (22.6%) Other: 19 (4.9%)
Percent of prescriptions to long-term care facilities	390	6.9% for all pharmacies; (18.9% for 142 pharmacies reporting > 0%)
Building ownership (or rented from related party)	389	Yes, (own building or rent from related party): 202 (51.9%) No: 187 (48.1%)
Provision of unit dose services	381	Yes: 137 (36.0%) (average of 24.3% of prescriptions for pharmacies indicating provision of unit dose prescriptions. 92% of unit dose prescriptions were reported as prepared in the pharmacy; 8% were reported as purchased already prepared from a manufacturer) No: 244 (64.0%)
Percent of total prescriptions delivered	390	14.0% for all pharmacies; (28.7% for 189 pharmacies reporting > 0%)
Percent of Medicaid prescriptions delivered	390	15.5% for all pharmacies; (38.6% for 156 pharmacies reporting > 0%)
Provision of intravenous or home infusion prescriptions	389	Yes: 25 (6.4%) No: 364 (93.6%)
Provision of blood factor or derivatives prescriptions	388	Yes: 3 (0.8%) No: 385 (99.2%)
Percent of prescriptions compounded	390	1.8% for all pharmacies; (4.3% for 166 pharmacies reporting >0%)
Hours open per week	381	66.3 hours
Years pharmacy has operated at current location	333	19.1 years
Percent of prescriptions with third-party reimbursement (including Medicaid)	379	82.0%
Provision of prescription sales on credit	388	Yes: 182 (46.9%) No: 206 (53.1%)
Provision of prescriptions by mail	389	Yes: 61 (15.7%) (average of 6.4% of prescriptions dispensed by mail for pharmacies responding "Yes") No: 328 (84.3%)

Exhibit 17
Chart of Components
of Dispensing Cost
per Prescription

Chart of Components of Dispensing Cost per Prescription

